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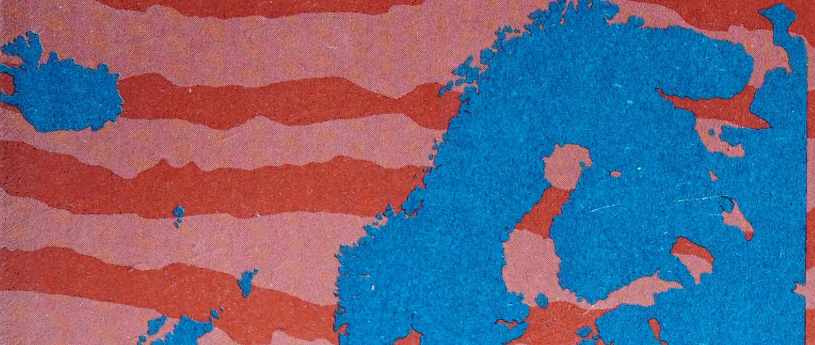

ECONOMIC SURVEY OF EUROPE 1969

Part 2: The European Economy in 1969

UNITED NATIONS

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UNITED NATIONS

ECONOMIC SURVEY
OF EUROPE IN 1969

PART II

THE EUROPEAN ECONOMY IN 1969

Prepared by the
SECRETARIAT OF THE
ECONOMIC COMMISSION FOR EUROPE
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Prefatory Note

The present SURVEY is the twenty-third in a series of reports prepared by the secretariat of the Economic Commission for Europe to serve the needs of the Commission and to help in reporting on world economic conditions—a task which the Economic and Social Council of the United Nations has entrusted to the Department of Economic and Social Affairs.

This SURVEY is published on the responsibility of the secretariat, and the views expressed in it should not be attributed to the Commission or to its participating governments.

In general, information received up to the end of February 1970 has been included, although certain information received by the secretariat in March and April has also been included.

June 1970

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EXPLANATORY NOTES

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the secretariat of the United Nations concerning the legal status of any country or territory or of its authorities, or concerning the delimitation of the frontiers of any country or territory.

The following symbols have been used throughout this SURVEY:

.. = not available or not pertinent;

— = nil or negligible;

* = estimate by the secretariat of the Economic Commission for Europe.

In referring to combinations of years, the use of an oblique stroke—e.g. 1969/70 signifies a twelve-month period (say from 1 July 1969 to 30 June 1970). The use of a hyphen—e.g. 1968-1970—normally signifies either an average of, or a total for, the full period of calendar years covered (including the end years indicated).

Unless the contrary is stated, the standard unit of weight used throughout is the metric ton. The definition " billion " used throughout is one thousand million. Minor discrepancies in totals and percentages are due to rounding.

References in tables or charts to the OECD (Organisation for Economic Co-operation and Development) refer to the west European members of that organization (i.e. excluding Canada, the United States and Japan) unless otherwise stated.

CHAPTER 1

RECENT ECONOMIC DEVELOPMENTS IN EASTERN EUROPE AND THE SOVIET UNION

1. AN OVER-ALL VIEW OF ECONOMIC DEVELOPMENTS IN 1969

(i) Tendencies in growth of national output

In 1969, economic growth in eastern Europe and the Soviet Union again proceeded at a fairly vigorous pace though, in the region as a whole, at a slower rate than in the preceding year. National income (net material product) grew at 5 per cent or more in all countries of the area except Poland. Albania's growth of national income was about the same as in the previous year, though much less than the increment of some 16 per cent originally foreseen in the annual plan. In Bulgaria, Hungary and Romania, growth of aggregate output was more rapid than in 1968, but this was more than offset by declines in the growth rates in Czechoslovakia, Poland, the Soviet Union, and to a lesser extent also in eastern Germany. It can be estimated (see text table) that the net material product for the group of countries as a whole advanced by 6 per cent, and for eastern Europe without the Soviet Union, by 5.4 per cent—as against 7.4 per cent and 7 per cent, respectively in 1968. Soviet national income (distributed) grew in 1969 by 6 per cent as compared with 7.2 per cent (7.5 national income produced) in 1968, and a target rate of growth of 6.5 per cent.[1]

Changes in the growth rates in the past two years indicate that agriculture still plays an important role in short-term fluctuations of aggregate output. As a result of adverse climatic conditions, the farm sector in the Soviet Union, Poland and eastern Germany suffered a setback and in these countries in particular, the growth rate of net material product was lower than in 1968. The impact of an unfavourable agricultural year on over-all growth was obviously felt less in a highly industrialized country like eastern Germany than in, for example, Poland, where the share of agriculture in the net material product is about twice as large as in the former country. It is also significant that in Bulgaria, Hungary and Romania, where in 1969 the growth of national output accelerated, a decline or stagnation of agricultural output in 1968 had brought their growth rate of that year below the average for 1966-1969.

Growth rate of national income produced

(Annual percentage changes)

	1966	*1967*	*1968*	*1969*	*1970 plan*
Albania	9.0	7.5	11.0	11 *	10
Bulgaria	11.1	9.0	6.4	7.7	9
Czechoslovakia	10.2	5.2	7.5	6.5	5.2
Eastern Germany	4.9	5.4	5.3	5	6.3
Hungary	8.4	8.7	5.0	6	5-6
Poland	7.2	5.6	9.0	3.5	5.8
Romania	10.0	7.3	6.8	7.3	12
Eastern Europe total [a]	7.9	6.2	7.0	5.4	5.8
Soviet Union	8.0	8.8	7.5	6 [b]	6 [b]
Eastern Europe and Soviet Union total	8.0	8.0	7.4	below 5.8	above 6 *

Sources: National statistics, plans and plan-fulfilment reports.

NOTE. — The weights for the calculation of the composite index were derived from table 2.30, part I, chapter 2 of this SURVEY where estimates of gross domestic product in 1965, expressed in common currency, can be found for six east European countries and the Soviet Union (for methods, see part I, chapter 4). The conversion from gross domestic product to net material product, for which the yearly percentage growth rates are available, was carried out by applying estimated coefficients reflecting the magnitude of depreciation and output of non-material services (for methods, see part I, chapter 2, pp. 3-6). The country shares in the total NMP of the area in 1965, used as weights in the table, are as follows:

	Percentage distribution
Bulgaria	2.1
Czechoslovakia	5.2
Eastern Germany	7.1
Hungary	2.6
Poland	8.5
Romania	4.1
Eastern Europe	29.6
Soviet Union	70.4
TOTAL	100.0

[a] Excluding Albania.

[b] Domestically distributed national income.

Among the countries with a slackening growth rate of national output in 1969, Czechoslovakia holds a separate position. Here the agricultural sector exceeded the record output of the preceding year and—as in the three previous years—it exercised a stabilizing influence on the economy. However, generally unsettled conditions in the first half of the year—only partly overcome in the second half—

---

[1] In the Ukrainian SSR, national income increased in 1969 by 6.5 per cent and in the Byelorussian SSR by 8 per cent, in both republics at a higher rate than in the USSR as a whole.

TABLE 1

Changes in output and indicators of allocation of national income to final use

(Percentage change over previous year at constant prices)

Country — Year	*Global output*			*Private and public consumption*	*Of which: Retail sales* [a]	*Fixed capital investments*	*Export* [b]	*Import* [b]	*National income produced*
	Industry	*Construction*	*Agriculture*						
Albania									
1966	12.0		12.5		7		5		9
1967	12.8		12		5	6	5	0	7.5
1968	19		2.5		9		10	..	11
1969	11	17	10*		9		7	23	11
1970 plan	7.5		17		8		6.4	5.5	10
Bulgaria									
1966	12.4	17.9	14.3	6.3 [b]	8.6	22.3 [b, c]	11.0	25.5	11.1
1967	13.5	17.8	3.5	9.2	11.6	25.1	11.7	6.3	9.0
1968	10.4	11.5	–8.7	12.4	7.5	9.1	10.5	11.9	6.4
1969	10.0	4.2	2.4		7.9 [b]	–15*	11.5	–1.8	7.7
1970 plan	8.2	8	12*		7.7	24	..	..	9
Czechoslovakia									
1966	7.4	9.2	11.1	5.3	5.2	9.8	2.1	2.4	10.2
1967	7.1	6.8	5.5	4.6	5.2	2.7	4.3	–2.0	5.2
1968	5.5	6.2	5.6	9.9	13.0	10.4	4.9	14.8	7.5
1969	5.2	6-7*	0.9		7.5	10.3	9.6	5.3	6.5
1970 plan	6.5	6.9	0.6			2.5	6	4	5.2
Eastern Germany									
1966	6.3 [d]	5.5	[e]	4.5	4.1 [b]	7.0	4.4	14.4	4.9
1967	6.5	9.5		4.3	3.9	9.2	7.8	2.0	5.4
1968	6.1	9.8		4.7	4.9	10.0	9.5	3.3	5.3
1969	7.0	10	–6.6	4-5*	6.1	13.0	13.1		5
1970 plan	8.4	8.6	2.6	3.8	4.3	11.0	13.6		6.3
Hungary									
1966	6.8	11	8	4.4	7	9	5.6	3.0	8.4
1967	8.9	13	4	5.9	10	21	6.8	13.4	8.7
1968	5	6	1	5.6	7	1	5.2	1.5	5.0
1969	3	6-7	5-6	6	8	7-8	16	7	6
1970 plan	6	7-8	1	5*	8-9	6-7	7	8	5-6
Poland									
1966	7.4	8.1	5.4	6.2	6.8	8.5 [c]	2.0	6.6	7.2
1967	7.7	9.8	2.5	5.4	6.8	11.3	11.2	6.0	5.6
1968	9.4	9.3	4.5	6.6	7.6	9.0	13.1	11.7	9.0
1969	8.9	5.4	–4.7	4	6.3	8.2	10.0	12.5	3.5
1970 plan	7.3	2.9	3	4	6*	2.5	7.1	4.9	5.8
Romania									
1966	11.7	10	14.0	..	9.4	10.7 [f]	7.7	12.6	10.0
1967	13.5	18	1.8	..	9.7	17.3	17.6	27.4	7.3
1968	11.6	12	–3.7	..	8.8	11.2	5.2	4.1	6.8
1969	10.7	5.7	4.8	..	4.7 [b]	5.1	10.4	6.5	7.3
1970 plan	11.3	..	16	..	5.6	9	17	6.2	12
Soviet Union									
1966	8.7	6.5	8.9	6.9 [b]	8.7	7.6	8.2	–1.8	7.5 [g]
1967	10.0	8.7	1.6	8.1	9.3	8.2	9.1	7.9	7.0
1968	8.1	7	3.2	7.8	8.3	8.1	10.2	10.2	7.2
1969	7.0	6	–3.2		7.4	4	9		6.0
1970 plan	6.3	..	8.5		6.3-7.2	7.6	..	..	6.0

---

[a] Excluding private sales in Czechoslovakia, Poland, Romania and the Soviet Union.

[b] At current prices.

[c] Excluding private investment.

[d] Commodity production.

[e] Net output increased by 4.8 per cent in 1966, 6.2 per cent in 1967 and 1 per cent in 1968.

[f] Centralized State investment which amounts to about 90 per cent of total investments.

[g] Domestically distributed national income.

brought about a slowdown in aggregate economic activity.

In most countries the annual plan growth targets for 1969 were not quite reached. Moreover, in virtually all the countries of the area (the most notable exception being Albania) the actual growth rates of national output in 1969 were lower than the average rates for 1966-1969, as can be seen from the table below. Only in eastern Germany did growth in 1969 come very close to the average for the past four years. In comparison with the first three years (1966-1968) of the current medium-term plans, the deceleration was even more marked, ranging from —0.7 per cent in Romania, to about —1 per cent in Bulgaria, Czechoslovakia, Hungary and the USSR, and up to —3.6 per cent in Poland. The estimated index of net material product for the area as a whole also showed a lower growth rate for 1969 (around 6 per cent) than for the average of 1966-1969 (7.3 per cent) or for the average of the preceding three years (7.8 per cent).

Growth rates of national income in the present and preceding medium-term plan periods

	1961-1965 actual	*1966-1969 actual*	*1969 actual*	*1966-1970 plan*
Albania	5.8	9.6	ca. 11	7.7-8.5
Bulgaria	6.7	8.5	7.7	8.5
Czechoslovakia	1.9	7.3	6.5	4.1-4.4
Eastern Germany	3.5	5.2	5.0	5.5
Hungary	4.5	7.0	6	3.5-3.9
Poland	6.1	6.3	3.5	6.0
Romania	9.0	7.8	7.3	ca. 7.5
USSR [a]	5.7	6.9	6.0	6.6-7.1

[a] Domestically distributed national income.

Other sectors less sensitive to the vagaries of the weather have also evidenced a tendency towards retardation. A slackening of growth rates over the past four years can be observed in global industrial output, except for eastern Germany and Poland. Industrial growth rates in 1969 were from 1-3 per cent lower than the averages for 1966-1969, a tendency even more pronounced in the construction industry. Again with the exception of eastern Germany (with a mildly accelerating growth rate) and the Soviet Union, where the deviation from the average for the 1966-1969 period was negligible, the deceleration ranged from about 1 per cent in Czechoslovakia and 2.5 per cent in Hungary and Poland to 6-9 per cent in Romania and Bulgaria.

On the whole, if the temporary agricultural setback is disregarded,[2] the decelerations in 1969 were induced by supply factors rather than by a slackening of demand.[3] Various bottlenecks in fuel, energy and other materials supply branches seem to have been the main causes of the decline in the growth rate of industry and construction. Delays in the completion of new capacities also created difficulties. This led in several countries to the adoption of policies designed to improve the balance between investment demand and available resources (concentration of efforts on completions, restriction of new construction starts, etc.). A slackening of employment expansion also contributed to the deceleration in output growth in several countries.

It is difficult to assess the implications of these supply bottlenecks on future growth possibilities. It seems that in most countries the problems should be overcome within the near future. In four countries (Bulgaria, eastern Germany, Poland and Romania) renewed acceleration of the growth rates of net material product has been planned for 1970 which would more than counterbalance the planned deceleration of the growth rates in Albania, Czechoslovakia and Hungary. If the plan targets for 1970 are exactly fulfilled, the combined east European growth rate would increase from 5.4 to 5.8 per cent which, however, is still a lower rate than the one recorded for 1966-1969. In the Soviet Union, a similar growth rate to that achieved in 1969 is planned for 1970, lifting somewhat the total computed growth rate for the area as a whole and implying that the growth deceleration observed in the past two years will be checked in 1970.

In part I of this SURVEY estimates have been provided of long-term growth trends in the period 1965-1980.[4] There may be some interest in comparing actual growth rates in 1969 and in the four years 1966-1969 of the present medium-term plan period with these long-term trends. The rates of growth of national income recorded in 1969 exceeded the estimated long-term trends in Bulgaria, Czechoslovakia and Hungary, were about equal in Romania, slightly lower in eastern Germany, somewhat more so in the Soviet Union, but considerably lower in Poland. The weighted average rate for eastern Europe and that for the region as a whole (including the Soviet Union) was about one-half percentage point below the long-term trend estimates. In this comparison, the effect of the short-term fluctuations induced by the performance of the agricultural sector in the individual countries becomes even clearer.

Of more interest is a comparison of the annual average growth rates in 1966-1969 with the long-term trend estimates of aggregate growth. In the past four years, practically all countries of the area had a growth rate equal to, or exceeding, the estimated rates for 1965-1980. The recent annual growth rates were from 1.5 to 2 percentage points higher than the long-term estimates in Hungary, Bulgaria and Czechoslovakia; in the other four countries actual results were close to the long-term estimates, with deviations from —0.2 to +0.5 percentage points. The weighted average growth rate for the whole region

---

[2] The general performance and tendencies for acceleration or deceleration in agriculture cannot be measured within the short time-span of the present quinquennium. However, as will be shown in section 3 of this chapter the progress achieved in agriculture in the recent past has been a stabilizing factor in practically the whole region, sustaining the aggregate growth rate of the economy in comparison with earlier years.

[3] Only in Hungary was the slow-down in the growth rate of industry connected with demand factors. Trade organizations were slow in placing new orders in the first half of the year in view of the stocks accumulated in previous years.

[4] Part I, chapter 2 and table 2.31. The tentative nature of these estimates should be borne in mind in reading the above text.

(including the Soviet Union) was one percentage point higher than the long-term trend estimate.

Several countries—but particulary the Soviet Union—had exceptionally high growth rates in the first two years of the present quinquennium, lifting the annual average for the period 1966-1969. The comparison with the long-term trends shows that the recent retardation of growth rates brought them down to a growth path more in line with long-term trends. Indeed, the supply bottlenecks referred to above show that the peak rates achieved in 1966 and 1967 could not be maintained. This holds true for practically all the countries with the exception of Czechoslovakia, where recent growth rates are still well above the estimated long-term trend.

In considering these developments several important facts stand out: while there appears to be a certain similarity between the deceleration observed in the later stages of the second half of the 1960s and the decline of growth in the early 1960s, the swing in growth rates has nowhere been as pronounced as in 1961-1965; moreover, the average growth rate of aggregate output in 1966-1969 has been higher than in the preceding medium-term plan period in all countries of the region except Romania. Very likely, the planned growth targets for the current five-year plans (1966-1970) will be fulfilled or even exceeded in all countries, while in the previous medium-term plan period actual performance fell short of the original plan targets. On balance, it may be concluded that changes in the planning and management system, introduced in the second half of the 1960s, have contributed to a more even growth pattern than in the preceding quinquennium in most countries.

(ii) Trends in employment and labour productivity

The previously observed tendencies towards a slowing down in employment growth were further strengthened in 1969. It appears from incomplete and preliminary data that, while total non-agricultural employment in most countries expanded at more or less even rates in the second half of the 1960s, employment grew at a faster pace in the services and slowed down in the material branches of the economy.

There are not sufficient data to assess changes in employment and productivity in the material sector taken as a whole. Observations must therefore be restricted to industry and construction (which together account for between two-thirds and four-fifths of total employment in the non-agricultural material sectors).

In comparison with the preceding year, the growth of industrial employment slowed down in most countries in 1969; only Romania and Bulgaria increased their rates of growth of industrial employment. As can be seen from table 2, the slowdown was more pronounced in the Soviet Union than in eastern Europe taken as a whole. Industrial employment remained practically unchanged (as in previous years) in eastern Germany and grew at considerably reduced rates of half a per cent in Czechoslovakia, and 2 per cent in the Soviet Union. Furthermore, the growth of 3 per cent in Hungary and 3.4 per cent in Poland represent a deceleration of growth in industrial employment.

The deceleration in employment expansion was even more pronounced in construction (see table 17). Only in Hungary did employment increase in that industry at a faster rate (by 7 per cent) than in the preceding year. In the Soviet Union the same employment growth (3 per cent) as in 1968 was reported. In all other countries smaller additions to the labour force than in 1968, or even an absolute decline in employment (in Czechoslovakia and, probably, in Bulgaria), were either reported or are implied by the greatly reduced output figures.

Developments in 1969 accentuated a trend which has been apparent throughout the present medium-term plan period. Thus, in the Soviet Union, growth of industrial and construction employment has considerably slackened in comparison with the early years of the current Five-year Plans. The same can be said for most of the other countries of the region. Romania is an exception, at least with respect to industrial employment where a steadily rising trend has continued during the present quinquennium, while employment growth in construction considerably slowed down in the last two years. In Hungary no clear trend over the past four years emerges in industrial employment (but the growth recorded for 1969 was nevertheless lower than the annual average for 1966-1969), and in construction a rising trend seems to prevail. In the other countries the slowdown in employment growth both in industry and in construction is clear—even if the rates of deceleration vary from country to country.

A further reduction in the growth of employment is planned for 1970, at least for industry, in most countries of the region. For Romania this implies a reversal, and for the others a continuation, of past employment trends. Bulgaria even plans an absolute reduction in the level of industrial employment. In the Soviet Union a mere 1 per cent employment growth in industry is foreseen; this would be the lowest rate of increase since the war. Only in Czechoslovakia is a mild acceleration of growth of industrial employment planned (from 0.6 to 0.9 per cent).

However, when considering the plans for 1970 it has to be borne in mind that employment targets have usually been over-fulfilled in the past—in some countries by a considerable margin. Except for eastern Germany and possibly Czechoslovakia, actual industrial employment growth in 1969—though slower than in preceding years—was still faster than foreseen in the plan for that year. Even if the current year's targets are exactly met, actual employment growth in industry during the whole of the present Five-year Plan period would still be faster than planned in Czechoslovakia, Hungary, Poland, the Soviet Union, and very likely in Romania. Only in eastern Germany did industrial employment follow the plan, while in Bulgaria actual employment growth will be slightly less than the planned rate for 1966-1970.

Notwithstanding certain likely deviations from the plan, the fact remains that the region has apparently entered a stage of development where the previous high rates of employment intake in the main productive branches of the economy are unlikely to continue. It is difficult to make a general assessment of the causal links between the slowdown in output and employment growth. While supply bottlenecks and policy decisions have caused a deceleration in construction output which, in turn, may have induced a smaller demand for labour, it seems that —at least in some countries or regions (especially in the Soviet Union)—labour shortages in industry may have been an important factor in the industrial slowdown. This may not imply an exhaustion of labour resources but rather the need for an accelerated development of the tertiary sector.

In view of the observed deceleration of employment growth, which was more pronounced than the slowdown in production, growth rates of labour productivity have been remarkably steady in most countries in comparison with the previous year. In comparison with the period 1966-1969, rates of growth of labour productivity have, in most countries, increasingly become the main element in output growth.

Hungary is the only complete exception to this pattern. Both in industry and in construction, employment growth equalled output growth in 1969 with no apparent productivity gain, which can only partly be explained by a shortening of the working week from 48 to 44 hours. In Romania too, no improvement is apparent in the productivity ratio in industry, while in construction no data are available for 1969. However, a comparison of 1968 with the period 1966-1968 also shows an improvement in the relative contribution of productivity to the growth of construction output. In all the other countries, productivity ratios in industry and construction[5] improved in 1969 in comparison with the first four years of the present medium-term plan period, as can be seen from the following table.

Percentage share of productivity growth in output growth [a]

	1969		*1966-1969*	
	Industry	*Construction*	*Industry*	*Construction*
Bulgaria	64	100 *	57	54
Czechoslovakia	89	110	77	70
Eastern Germany . . .	100 *	51	96	58
Hungary	—	—	50	31
Poland	61	84	55	56
Romania	53	68 [b]	64	54 [c]
USSR	69	58	66	52

[a] Calculated from the logarithm of growth indices.

[b] 1968.

[c] 1966-1968.

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[5] In eastern Germany the productivity ratio decreased in the construction industry due to a high intake of labour in the past two years.

(iii) Efficiency and intensive growth

The increasing share of productivity gains in output growth may indicate the effects of the new growth strategy formulated at the time of elaboration of the current five-year plans,[6] especially in the highly industrialized countries where growing concern about the qualitative achievements of the economy was accompanied by efforts to improve its efficiency. The new strategy reflected the view that economic development could no longer be based essentially on quantitative factors of numerical growth of the labour force and on high rates of expansion of capital investment; a new pattern of intensive growth had become necessary. This development is likely to continue, as demonstrated by a recent policy statement re-emphasizing the paramount importance of the qualitative factors of economic growth in the Soviet Union at the present stage of development.[7]

A diminishing contribution of employment growth to output growth, which has been the rule in most countries of the area in the present quinquennium, is only one of the manifestations of intensive growth. Another change is the trend in returns to input, which can be traced with the help of incremental capital-output ratios.

As will be shown below (see section 4), in four of the seven countries of the region the capital-output ratios are likely to decline between 1961-1965 and 1966-1970, and will remain unchanged in a fifth country. In only two countries has the increase of the investment ratios not been matched by corresponding additions to the national income, with a consequent increase in capital output ratios. The tendency towards falling or stable capital coefficients, indicating an improvement in investment allocations, gives the planning authorities the choice between a steady rate of growth at a reduced or constant investment ratio on the one hand, and an accelerating rate with an unchanged or proportionally rising investment ratio on the other. High priority may still be attached to the expansion of investment but the conditions of the initial extensive growth model—where a given growth rate could only be maintained by increasing the share of accumulation and reducing the share of consumption—are no longer valid.

This tendency also offers possibilities for a gradual change of the structure of accumulation which may be defined to include all quantifiable factors of growth of the national product. Indeed, under contemporary conditions it may be argued that accumulation should include not only net fixed capital investment and changes in stocks, but also the resources allocated to education and to research and development.[8] Using such a concept, one can observe that investments in the means of production have shifted to a considerable degree in recent years into the sphere of " investments in human resources "—on which all scientific and technical progress finally depends. As will be shown in section 7 of this chapter, considerable financial, material and human resources have been devoted in all countries of the region in recent years to increasing economic and technical efficiency by planned development of science and technology, and by measures devised to encourage the introduction and absorption of technological innovations into productive processes.

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[6] Cf. *Economic Survey of Europe in 1966*, chapter II, pp. 44-45.

[7] A leading article in *Pravda*, 13 January 1970, which summarized the findings of the December 1969 Plenary Session of the Central Committee of the CPSU and of the Seventh Session of the USSR Supreme Soviet stated, *inter alia*, that " Raising the efficiency of production has become a key problem, primarily because there has been a change in the main factors of our economic growth. While previously we were able to develop the national economy mainly using quantitative factors, that is by increasing our manpower numerically and by high rates of growth of capital investments, it is now necessary that above all we rely on qualitative factors of economic growth—the raising of efficiency and the intensity of the national economy. We must increase production and improve the quality of output by making fuller and more rational use of existing production capacities, by renewing equipment, by introducing the achievements of modern science and technology and by a conscientious attitude to every minute of working time, to every machine and to every gram of raw material and fuel. "

One of the ways in which science enters the economy as a productive force is through the priority development of science-intensive branches and products. Section 2 of this gives some evidence of recent changes in the branch structure of industry which bears on this subject (see table 3). While present national statistics do not permit a thorough investigation of the problem by means of a more refined breakdown, the data nevertheless show that the " growth " industries in the centrally planned economies are precisely those branches and sub-branches where the application of research results and rapid introduction of technological innovation are particularly important.

Disregarding the temporary setbacks attributable to the adverse climatic conditions in 1969, technical progress has definitely entered the sphere of agriculture in the centrally planned economies (see section 3 of this chapter). Under the impact of improved agro-techniques and increasing industrial supplies to the farm sector, the growth of agricultural output in the past five years has accelerated when compared with the previous five-year period, and it seems that the potentialities of farm production in the Soviet Union and the east European countries are expanding. This development also opens new possibilities for progressive changes in the growth pattern.

In discussing new growth patterns, the interrelations between the production of producers' and consumers' goods can also be posed in a new way. Falling, or at least stable, capital coefficients provide larger opportunities for a faster expansion of the consumer-goods sector than under conditions of accelerated industrialization and extensive growth. There is not sufficient statistical evidence to trace the relevant developments for the entire economy but, at least for some countries of the region, changes in the relative rates of growth of the producer- and consumer-goods sectors in industry can be observed.[9] The Soviet Union succeeded in consistently narrowing the gap between the growth rates of the two groups during the present five-year plan (the consumer sector expanding faster in the last two years—a trend not likely to be maintained for a longer time-span). So did Bulgaria and Czechoslovakia, at least in the period 1965-1968, while in Poland—in spite of the intentions of the plan—only modest structural changes in the relative growth rates of the two groups were achieved.[10]

In previous years it used to be a widespread practice to identify economic growth in the centrally planned economies with the growth of global industrial output. There were some valid reasons for such a simplification: industry was by far the most dynamic sector and its growth rates (much higher than in other sectors) were decisive for the entire economy; the slow increase of the net contributions to total output of a still large, but not sufficiently developed, agricultural sector and only slowly expanding material services were frequently a drag on the growth of the net material product. In recent years in most countries of the region the contributions of the other sectors—and especially of transport, domestic and foreign trade—have become more important; there is a definite tendency for the ratio of the net material product growth to the industrial growth to increase.[11]

There is so far hardly any information on the net contributions of individual sectors to the growth of the net material product in 1969. However, a comparison of growth rates of global industrial output (assuming similar rates for gross and net output) and of national income shows that in the Soviet Union, for example, industrial output grew by only 1 percentage point faster than total output (even though agricultural output suffered a setback); and in Czechoslovakia and Hungary national income growth was faster than that of industry. In the other countries (except for Poland) the observed tendency towards a narrowing of the gap between the respective growth rates also continued in 1969, although in that year adverse short-term fluctuations in agriculture influenced the ratios.

Moreover, it is the growth of final products and not that of production itself that is decisive for the growth of consumption, investment and exports. In previous years the rates of growth of global industrial production, total deliveries and final deliveries [12] to investment, consumer markets and exports largely coincided. If anything, complaints were voiced that final deliveries grew at a slower rate than total deliveries or output itself, signalling unjustified stock formation of non-saleable products. Statistical information on changes in growth relationships of these indicators is not available for all countries of the area, but in those countries for which data are available there are indications that with increased efficiency in production and greater flexibility in responding to demand final deliveries grew faster than total deliveries, which, in turn, grew faster than global industrial production (see section 2). This certainly seems a positive development, the obvious explanation of which is a substantial stock reduction or deceleration in stockbuilding. However, there may be additional causes such as a decline in inter-industry deliveries in relation to global output. It has been pointed out that the past emphasis on global output as a major indicator and success criterion was associated with uneconomic transactions between enterprises and often, too, with inefficient use of inputs. A greater emphasis on the economic returns of the enterprises may therefore have induced not only a reduction of unnecessary stocks but also the elimination of superfluous inter-industry shipments.

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[8] Cf. Gerhard Schilling, " Zur Bestimmung der perspektivischen Entwicklung der volkswirtschaftlichen Forschungs- und Entwicklungsaufwendungen ", *Wirtschaftswissenschaft*, No. 7, 1968. The author advocated adopting such a broader concept of accumulation and proceeds to quantify within it the share of R and D in eastern Germany in the 1955-1970 period.

[9] Cf. section 2 below of this chapter. The discussions of this subject in section 2 relate to the global output concept while the relationships discussed in the above text pertain to the net material concept. The implied assumption is that " net " proportions move in the same direction as " gross " proportions.

[10] The relationship between the growth rate of consumers' and producers' goods is of course influenced by the degree and pattern of international specialization of a country.

[11] Cf. part I, chapter 2 of this SURVEY, and table 2.20.

[12] In addition to final deliveries, total deliveries include supplies of intermediary products to the domestic economy, including industry itself.

In tracing new growth patterns, foreign trade developments in the area are of particular interest (see section 6). The acceleration in growth of the foreign trade of the region, which after a setback in the mid-1960s began in 1967, continued in 1969. This widening of foreign trade relations occurred simultaneously with a deceleration in the growth of net material product, with the result that the trade elasticity of the area (ratios between trade and NMP growth) increased from 1.0 in 1967 to 1.2 in 1968 and about 1.6 in 1969. At the same time, foreign trade within the region increased in 1969 at a somewhat slower pace than trade with the rest of the world. Trade with western Europe in particular—but also with the developing countries—expanded faster than total trade turnover of the region.

These changes in trade relations pose new problems for growth and development as well as new possibilities. Trade with the developed market economies, and especially with the industrialized countries of western Europe, is conducted in convertible currencies which cannot be earned by trade within the area nor, to a large extent, by trade with other areas of the world. The possibilities of earning convertible currencies by exports to the developed market economies therefore set, by and large, the limits for mutual trade expansion. However, development of foreign trade within the region is also an important element for further intensive growth. The solution of balance-of-payments problems has therefore become—especially in some countries—an important prerequisite for the steady growth of the economy just as, on the other hand, imbalances in foreign trade relations have contributed to undesirable fluctuations in the investment and national income growth rates.

The positive features in the recent growth pattern have inevitably had an impact on trends in living standards. The deceleration in the rate of growth of national income which occurred in several countries in 1969 was naturally also reflected in a certain slowdown in gains of consumer incomes in real terms. However, in at least four countries for which statistical evidence is available at the time of reporting, real wage gains of 3 to 5 per cent per wage-earner were recorded in 1969 (see section 5). Together with earlier gains in 1966-1968, this will not only ensure implementation of the five-year plan targets but also a faster increase in over-all living standards than in the previous medium-term plan period.[13]

As has been reported before, the quest for greater economic efficiency in recent years has been connected with an improvement of the planning and management systems. An important element of these reforms were measures aimed at increasing the initiative and responsibility at lower levels of decision-making, while at the same time strengthening the role of central policy and planning direction based to a greater extent on economic means of plan implementation and control. Recent experience has shown that these institutional changes have greatly increased the emphasis in economic policies on proportional development and economic equilibrium. In several countries, instabilities developed in consumer markets, investments and foreign trade, indicating excess demand. While it might be expected that a change-over to more complex planning and management methods would reinforce and bring into the open imbalances in a number of areas, it has to be recognized that these problems have become pressing in some countries. The strategic problem for these countries is to apply policies capable of improving the balance in consumer markets, investments and foreign trade without forfeiting the improvements in over-all and micro-economic efficiency which were generated by the changes in planning and management.

In this section an attempt has been made to give an over-all review of issues and problems which arise in connexion with intensive growth patterns. A word of caution is necessary. What can be seen and analysed up to now is no more than the beginning of a change-over from extensive to intensive growth. The urgency for change and the possibilities of accomplishing in the near future a complete shift to an intensive-growth pattern differs widely from country to country. Individual countries are also likely to have different scales of preference relating to goals, as well as to measures, in accordance with their size, natural and economic endowment, and the development level reached.

There can be no doubt, however, that many preconditions have to be fulfilled to set the economies of eastern Europe and the Soviet Union on an intensive-growth path. These may consist in improvements of the sectoral and branch structures of the economy, in large-scale modernization of industry, in mechanization, automation and rationalization of production processes as well as in the adoption of appropriate policies and measures to promote technical progress, further international specialization and a wider application of up-to-date management techniques, combined with suitable material and moral incentives at the micro-level of the economy. Some of the preconditions mentioned—the list of which is by no means exhaustive—can be, and actually have been, implemented in some of the countries within a reasonably short period. Many of them, even if introduced immediately would only yield results in the long run. However, a definite beginning has been made in recent years as the following sections of the SURVEY will show.

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[13] *Economic Survey of Europe in 1966*, chapter II, p. 51.

2. INDUSTRY

In 1969, global industrial production in the region advanced by an estimated 7.1 per cent, compared with 8 per cent in the previous year. In the east European countries considered as a group, growth was somewhat faster than in the Soviet Union and the rhythm of expansion was also steadier. In fact, the recorded production growth rate in this area (7.5 per cent) exceeded—whereas that for the Soviet Union (7 per cent) fell short of—the estimates derived in part I, chapter 2 of this SURVEY, thought to represent the long-term trends of growth in the period 1965-1980.[14]

Notwithstanding the slower growth of output, labour productivity in both regions expanded at about the same rate as in 1968. The growth of industrial employment slowed down, significantly in the Soviet Union and less so in eastern Europe (see table 2).

The less satisfactory production results in 1969 than in 1968 were to some extent a reflection of the different climatic conditions in these two years. The hard 1968/69 winter strained transport capacity, delayed construction activity and tended to intensify pressure on available fuel and electric energy supplies. The effects of the prolonged and severe winter on industrial output were felt rather sharply in the Soviet Union during the early part of the year, and were evident in a number of other countries with greater force in the latter part of the year. The slow-down in the flow of agricultural supplies, in some countries dating back to the 1968 harvest and in others to the set-back suffered as a result of the 1969 climatic conditions, was another factor in slowing down industrial growth.

It is difficult to identify other common factors which may have had an especially strong influence on industrial performance in 1969; nor is it easy to provide a general characterization of the present situation in the various countries. In the Soviet Union, the lag in the development of basic material-producing branches in relation to processing industries which has been evident for some time (owing mostly to delays in the completion of new capacity) has been, apparently, the main factor behind the increasing strain on fuel energy and other material supplies. In Bulgaria, a decline in the growth rate of industrial completions and raw material imports was a restraining factor; the latter was also important in Romania. In eastern Germany, transport difficulties were particularly acute, adverse weather conditions having accentuated a structural lag. In Czechoslovakia, climatic conditions combined with a variety of other factors to exercise a dampening effect on output growth. Foremost among these factors were a slow-down in the growth of imports of raw and basic materials, due partly to the competing claim of other imports and the generally inadequate response of the productive system to plan incentives. In Hungary, transitory problems—understandably arising from the trials of reform—have been a predominating influence.

The branch patterns of industrial growth in 1969 are shown in table 3. While the chemical industry remained, in a number of countries, the fastest growing branch, in others—notably in the Soviet Union—its growth rate was lower than that of the engineering and metal working industry. Moreover, as can be seen from table 4, wide differences between countries continued to exist in the growth rate of the chemical industry in relation to the growth of total industrial production, ranging from a coefficient of 1.2 in eastern Germany to 2.3 in Hungary. The elasticity of growth of the engineering and metal-work industry with respect to the growth of total industrial production was much less varied, ranging from 1.3 in Czechoslovakia and Hungary to 1.7 in the Soviet Union. In relation to the over-all industrial growth rate, the expansion of the fuel industry was particularly fast in Bulgaria and Czechoslovakia, where the growth rate was 2.4 and 1.6 times that of total industrial output, whereas in Romania it amounted to only one-half of that rate. In Hungary, output of the fuel industry actually declined slightly, thus differentiating the inter-country pattern even more. A notable development in 1969 was that in a number of countries, including the Soviet Union, the elasticity of growth of the fuel industry with respect to the growth of total industrial production rose sharply, partly in response to increased requirements—the effect of a hard winter. Exceptionally big differences among countries occurred in the relative growth of the energy industry, the growth proportion ranging from a coefficient of some 0.4 in eastern Germany to 2.7 in Hungary. This contrasted with the pattern in 1968 when the range was between 1.0 in eastern Germany and Poland and 1.7 in Czechoslovakia. The growth rate of ferrous metallurgy exceeded the growth of total industrial production in eastern Germany, Hungary and, possibly, Romania. In the other countries a growth coefficient of between 0.5 and 0.9 was registered in all cases, the rates being significantly lower than in 1968, except in Czechoslovakia. In all countries of the group except Poland, a significant decline in the relative growth rate of the building materials industry occurred in 1969. Only in Romania did the

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[14] This is on the assumption that in 1969 growth rates in net output were close to the growth rates of gross output. The projected growth rate of net industrial output for the period 1965-1980 for the area as a whole (from table 2.31 in part I, chapter 2, and applying the same weighting system as is used in table 2 of this section) is 7.3 per cent. It is 7 per cent for the east European countries as a group and 7.4 per cent for the Soviet Union.

TABLE 2

Global output (A), Employment (B) and Output per man (C) in industry

Country and indicator	*Annual percentage changes*						*Average annual percentage change*	
	1966	*1967*	*1968*	*1969 plan* [a]	*1969 actual*	*1970 plan*	*1966-1969 actual*	*1966-1970 five-year plan*
Albania								
A	12.0	12.8	19.0	12.7	11.0	7.5	13.7	8.7
Bulgaria								
A	12.4	13.5	10.4	11.2	10.0	8.2	11.6	11.2
B	9.4	5.1	1.2	. .	3.5	−0.7	4.8	5.1
C	2.7	8.0	9.1	. .	6.3	9.0	6.5	5.9
Czechoslovakia								
A	7.4	7.1	5.5	7.2	5.2	6.5	6.3	5.6
B	2.6	1.1	1.2	. .	0.6	0.9	1.4	0.8
C	4.7	5.9	4.2	. .	4.6	5.5	4.8	1.7
Eastern Germany								
A [b]	6.3	6.5	6.1	7.0	7.0	8.4	6.5	6.5-7.0
B	0.3	0.3	0.3	. .	. .	. .	0.3	. .
C	6.0	6.2	5.8	. .	. .	. .	6.2	. .
Hungary								
A	6.8	8.9	5.3	6.0	3.0	6.0	6.0	5.7-6.3
B	1.4	3.2	4.0	2.1-2.4	3.0	2.0-2.5	2.9	1.4
C	5.2	5.4	1.0	3.8-3.5	.0	3.9-3.4	2.9	4.2-4.9
Poland								
A	7.4	7.7	9.4	8.3	8.9	7.3	8.4	7.6
B	3.5	4.2	3.6	3.3	3.4	1.9	3.7	2.5
C	3.7	3.4	5.6	4.9	5.3	5.2	4.5	5.1
Romania								
A	11.7	13.5	11.6	10.8	10.7	11.3	11.9	10.7-11.6
B	3.5	3.8	4.5	3.7	4.9	2.3	4.2	. .
C	8.1	9.3	6.8	6.8	5.5	8.8	7.4	. .
Eastern Europe [c]								
A	7.9*	8.4 *	7.7*	8.1*	7.5*	7.9*	7.9*	. .
B	2.8	2.6	2.7	. .	2.4	. .	2.6	. .
C	5.0*	5.7*	4.9*	. .	5.0*	. .	5.2*	. .
Soviet Union								
A	8.7	10.0	8.1	7.3	7.0	6.3	8.5	8.1-8.5 [d]
B	3.9	3.3	3.3	1.3	2.1	1.0	3.2	2.1
C	4.5	6.5	4.6	5.9	4.8	5.2	5.5	5.9-6.2
Eastern Europe and Soviet Union [c]								
A	8.4*	9.6*	8.0*	7.5*	7.1*	6.7*	8.3*	. .
B	3.5	3.1	3.1	. .	2.2	. .	3.0	. .
C	4.7*	6.3*	4.8*	. .	4.8*	. .	5.1*	. .

Sources: National statistics, plans and plan-fulfilment reports.

NOTE. — Except where otherwise indicated, output data refer to "gross production". The data cover state and co-operative industry only in Albania, Bulgaria, Hungary, Poland and Romania. For the Soviet Union, they exclude industrial activity on collective farms, for eastern Germany, handicrafts. Employment and productivity figures are in many cases derived from the other available data.

[a] Targets set in original plans. The figures shown in the table may differ from those implied in the reported data on the actual change during the year and the percentage of plan fulfilment, either because of plan modifications or because of differences in the base. Original plan figures are usually related to preliminary estimates of the base year: plan-fulfilment reports, as a rule, relate to the final returns of the base year.

[b] The figures refer to "commodity production" which is not strictly comparable with gross production because the former excludes work in progress.

[c] For the method of weighting output see *Economic Survey of Europe in 1962*, part 1, chapter I, p. 3, footnote 2. Beginning with 1966, the weight system has been shifted to a 1965 base. A comparison of the new with previous weights was given in *Economic Survey of Europe in 1966*, chapter II, p. 4, table 2, foonotet *d*.

[d] Original plan directives; the plans have been subsequently changed to an average of 8.9 per cent.

TABLE 3

Indicators of industrial activity by main branches

(Annual percentage changes in global output)

	1966	*1967*	*1968*	*1969 plan*	*1969 actual*	*1970 plan*
Albania						
Petroleum	9	12	21	21.5	..	..
Coal mining	17	12	13	..	..	..
Timber and wood, and paper	11	7	13	..	..	..
Chrome ore	..	6	19	13.8	..	..
Copper ore	56	10	54	13.0	..	..
Ferro-nickel	43	34	..	19.0	..	..
Electric power	24	34	21	..	..	..
Engineering and metal-working	40	23	28	22.9	..	..
Chemicals	..	180	61	12.8	..	..
Building materials	4	29	34	16.7	..	..
Glass and ceramics	..	17	..	..	..	..
Light industries	10	13	15	11.2	..	..
Food processing	5	3	11	7.6	..	..
Bulgaria						
Fuel	11.4	9.4	10.7	..	24.5	..
Energy	12.7	16.6	15.5	..	..	..
Ferrous metallurgy	17.3	27.3	22.2	..	9.0	..
Non-ferrous metallurgy	3.7	6.8	4.1	..	3.8	..
Engineering and metal-working	20.0	20.6	12.2	..	15.3	11.0
Chemicals and rubber	20.0	20.2	26.8	22.5	18.4	..
Building materials	8.8	17.0	8.4	..	3.7	..
Timber and wood processing	3.9	4.4	5.7	..	6.3	..
Cellulose and paper	25.5	22.4	16.9	..	6.4	..
Glass and china	14.6	21.5	13.6	..	8.4	..
Textiles	7.8	11.0	7.6	..	8.7	..
Clothing	27.6	21.0	17.5	..	2.9	..
Fur, leather and footwear	17.8	14.5	13.4	..	3.7	..
Food processing	8.4	8.1	4.7	..	4.6	..
Czechoslovakia						
Fuel	1.5	3.0	6.3	..	8.5	..
Energy	7.4	8.4	9.2	..	5.7	..
Ferrous metallurgy	7.5	3.1	2.5	..	3.2	..
Non-ferrous metallurgy	10.4	9.8	7.1	..	..	..
Engineering and metal-working	10.6	11.2	7.6	..	6.9	7.0
Chemicals and rubber	11.4	11.1	5.9	..	9.4	..
Building materials	9.5	8.2	5.6	..	3.2	..
Timber and wood processing	7.1	7.7	4.6	..	..	7.1
Cellulose and paper	4.8	7.5	4.3	..	..	..
Glass and china	9.6	7.6	1.5	..	..	15.0
Textiles	6.2	4.1	1.1	..	3.3	6.7
Clothing	5.4	6.6	3.8	..	4.1	5.8
Fur, leather and footwear	5.9	5.1	4.4	..	5.8	3.6
Food processing	4.5	3.7	4.2	..	1.3	4.6
Hungary						
Mining	2.7	–1.5	3.5	..	–1	..
Energy	9.5	9.4	6.1	7	8	8.5
Metallurgy	7.1	6.4	6.0	6	4	..
Engineering	8.6	9.8	7.4	7	4	7
Chemicals and rubber	12.5	13.5	10.4	9	7	12
Building materials	9.8	11.3	1.5	7.5	–5	5
Light industries	6.3	10.4	1.9	3.0	–2	..
Food processing	2.9	7.5	3.8	5.5	4	4

TABLE 3 *(continued)*

Indicators of industrial activity by main branches

(Annual percentage changes in global output)

	1966	*1967*	*1968*	*1969 plan*	*1969 actual*	*1970 plan*
Poland						
Fuel	4.5	4.1	9.1	8.4	8.2	6.0
Energy	8.5	7.1	9.7	8.7	9.3	7.9
Ferrous metallurgy	6.4	6.8	4.8	3.1	4.5	5.0
Non-ferrous metallurgy	6.2	10.7	5.6	10.9	13.1	8.3
Engineering and metal-working	9.6	10.8	14.3	12.9	13.5	10.0
Chemicals and rubber	12.8	14.1	14.2	11.4	12.4	12.8
Building materials	6.9	7.8	9.3	6.1	7.2	6.2
Timber and wood processing	3.9	5.0	7.6	4.9	5.1	6.0
Cellulose and paper	5.0	4.9	5.6	4.2	5.0	3.0
Glass and china	11.2	6.8	9.0	6.9	6.7	6.6
Textiles	7.0	4.4	8.0	6.3	7.2	6.6
Clothing	11.5	7.1	7.0	6.6	8.3	7.7
Leather and footwear	3.3	5.1	9.5	5.7	7.1	4.9
Food processing	4.9	2.5	2.6	2.7	2.8	1.7
Romania						
Fuel	5.0	5.7	6.3	..	4.9[a]	..
Energy	20.7	21.5	13.6	..	16.1	..
Ferrous metallurgy	9.3	16.5	15.0	..	..	..
Non-ferrous metallurgy	23.6	10.5	12.4	..	8.4	..
Engineering and metal-working	13.5	16.7	17.3	13.6	15.3	13.8
Chemicals and rubber	21.5	22.1	17.4	19.0	19.1	21.4
Building materials	9.2	13.8	17.7	12.5	11.8	..
Timber and wood processing	4.7	6.7	6.3	..	8.4	..
Cellulose and paper	22.6	19.5	15.6	..	2.0	..
Glass and china	5.4	10.5	6.9	..	14.8	..
Textiles	10.0	13.6	8.0	..	8.8	..
Clothing	17.4	16.2	5.9	..	12.6	..
Fur, leather and footwear	11.7	10.7	12.9	..	6.7	..
Food processing	9.0	8.3	5.9	..	2.3	9.0
Soviet Union						
Fuel	6.4	6.4	4.0	..	5.0	..
of which:						
Coal	1.2	1.7	–0.2	0.0	2.0	2.0
Petroleum	9.1	8.7	7.0	5.7	6.1	6.4
Gas	12.4	9.7	7.0	8.7	7.0	8.0
Energy	9.0	8.8	10.0	..	9.0	..
Metallurgy	9.0	8.0	7.0	..	4.0	..
Engineering and metal-working	12.0	12.3	12.0	9.7	12.0	9.2
Chemicals	12.8	13.1	12.0	10.4	10.0	..
Building materials	9.1	9.5	7.0	7.0	4.0	..
Timber, wood working and paper	3.5	7.0	4.0	..	3.0	..
Glass and china	10.6	10.1	..	..	..	..
Light industries	8.8	11.0	9.0	7.5	6.0	5.5
Food processing	4.3	7.5	5.0	5.0	4.0	5.0

Sources: National statistics and plan-fulfilment reports.

NOTE. — Coverage the same as in table 2, except for Bulgaria and Hungary where the data relate to State industry. The 1969 plan data refer to targets in original plans. For Hungary, the figures represent adjusted daily averages of output.

[a] Data for first nine months.

growth rate of this industry exceed somewhat the industrial average; in the other countries the proportion remained between 0.4 and 0.8, except in Hungary where the industry's output declined significantly. By comparison, in most countries the range in 1968 was between 0.6 and 1.0 and, whereas Hungary and Romania have similarly marked the limits, the over-all spread was between 0.3 and 1.6. The growth rate of the light industry was between 65 and 86 per cent of the growth of industrial production, except in Hungary which registered a decline. This represented an improvement in some countries and in others a deterioration as compared with the preceding year. The situation was different for the food-processing industry, the growth proportion of which declined in most countries, rather sharply in Czechoslovakia, Poland and Romania. Only in Hungary was it higher than in the preceding year.

Changes in the level of production of some major industrial commodities are shown in appendix table I. Output of electric power in the area as a whole rose by 7.5 per cent, against 8.4 per cent in the preceding year. Coal output, accounting for about 50 per cent of the area's fuel supplies, rose 3.5 per cent and oil output by 5.8 per cent, the former marking a higher and the latter a lower rate than in 1968 (1.5 per cent and 6.9 per cent respectively). Expansion of natural gas output continued at a relatively faster and steadier rate of 8.1 per cent. Output of rolled steel rose by 3.7 per cent, markedly slower than in 1968 (5.8 per cent).

The plans for 1970 envisage a somewhat higher growth rate than in 1969 in Czechoslovakia, eastern Germany, Hungary and Romania, and a lower rate in Albania, Bulgaria, Poland and the Soviet Union. With the index for the area heavily weighted by Soviet industrial production, the plans foreshadow a continued deceleration in the over-all rate. However, if realized, growth in the east European area as a whole, would be higher than in the past year.

In the Soviet Union the 1969 increment brought the average growth rate of industrial production in the past four years to 8.5 per cent, the 1970 plan providing for an increase of 6.3 per cent. If exactly fulfilled, this would imply an average growth rate of 8.1 per cent in the five-year period 1966-1970, which is still within the margin of 8.0 to 8.4 per cent indicated in the directives of the 1966-1970 plan, although significantly lower than postulated in the subsequently modified plan (8.9 per cent).

In the east European countries, industrial production in 1969 reached a level which was, everywhere, sufficient to assure the attainment of the goals for the present quinquennium contained in the medium-term plans. In fact, should the 1970 plans be fulfilled, Albania, Czechoslovakia and Poland would substantially over-fulfil their targets—Albania very substantially.[15] Eastern Germany and Romania would reach the upper limit of the target figures, whereas Bulgaria and Hungary would just achieve their targets.

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[15] The extent of over-fulfilment is such as to raise the question as to whether the plan was not restrictively modest.

TABLE 4

Growth rates of some major industrial branches as a proportion of over-all industrial growth rates

Branch	*Bulgaria*		*Czechoslovakia*		*Eastern Germany* [a]		*Hungary*		*Poland*		*Romania*		*Soviet Union*	
	1968	*1969*	*1968*	*1969*	*1968*	*1969*	*1968*	*1969*	*1968*	*1969*	*1968*	*1969*	*1968*	*1969*
Fuel	1.0	2.4	1.1	1.6	0.3 [b]	0.5 [b]	0.7 [c]	[e]	1.0	0.9	0.6	0.5	0.5	0.7
Energy	1.5	1.2 [d]	1.7	1.1	1.0 [d]	0.4 [d]	1.3	2.7	1.0	1.0	1.2	1.6	1.2	1.3
Ferrous metallurgy	2.1	0.9	0.5	0.6	0.9	1.1	1.2	1.3	0.7	0.5	1.4	..	0.7	0.6
Engineering	1.2	1.5	1.4	1.3	1.4 [f]	1.3 [f]	1.5	1.3	1.5	1.5	1.4	1.4	1.5	1.7
Chemicals	2.6	1.8	1.1	1.8	1.3	1.2	2.2	2.3	1.7	1.4	1.5	1.9	1.5	1.4
Building materials	0.8	0.4	1.0	0.6	..	..	0.3	[e]	0.6	0.8	1.6	1.1	0.9	0.6
Light industry	0.8	0.7	0.4	0.9	0.7	0.9	0.6	[e]	..	..	0.8	0.9	1.1	0.9
Food processing	0.5	0.5	0.8	0.3	..	..	0.8	1.3	0.4	0.2	0.5	0.2	0.6	0.6

Sources: Derived from data in tables 2 and 3.

[a] Output by industrial ministries.

[b] Coal mining.

[c] Mining.

[d] Electricity generation.

[e] Branch output declined.

[f] Partly estimated.

(i) The Soviet Union

The 7 per cent increase in Soviet industrial production was slightly less than originally planned. But, the plan target being lowered because of difficulties experienced in the first quarter, the results were better than those forecast in the revised plan. Moreover, the volume of industrial deliveries was reported to have risen in accordance with the original target.[16]

Industrial employment rose by 2.1 per cent in 1969 which, although in excess of the plan, was the smallest increase in the present decade. A further deceleration is expected in 1970, reflecting the appearance of labour shortages in some regions (particularly in the east and some of the central European areas) and generally the increased emphasis on "intensive" growth. Industrial labour productivity rose by 4.8 per cent as against 5.9 per cent planned, but slightly more than in the preceding year. In 1970, the growth rate of productivity is to be stepped up to 5.2 per cent, despite the planned decline in the growth of output.

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[16] No figure on changes in the volume of sales has been made available, however. It must be noted that it is only recently that references have begun to appear concerning this indicator. The volume of sales differs from the volume of output mainly because of the exclusion of changes in stocks and work in progress.

Profits in industry rose by 10 per cent in 1969, as compared with 14 per cent in the previous year. Nearly thirty-six thousand enterprises—or three-quarters of the total—are now operating under the new planning and management system. These accounted for 84 per cent of industry's output and 91 per cent of its profits.

As can be seen from the figures below, the slow-down in the growth rate of industrial production in 1969 was mostly due to the relatively unfavourable development in the first quarter. But growth in the second and fourth quarters was also lower than in the corresponding quarters of 1968.

Soviet industrial production

(Index changes from corresponding period of the preceding year)

	Quarters			
	First	*Second*	*Third*	*Fourth*
Average 1964-1968 . . .	109.0	108.7	108.0	108.2
1966	107.9	108.1	108.9	109.5
1967	110.9	110.3	110.3	108.5
1968	109.3	108.7	106.6	107.8
1969	106.0	107.8	107.2	107.0

Data for individual Republics indicate only a slight slowing down in the growth rate of industrial production in Byelorussia and the Ukraine in 1969. Both Republics have expanded production at a rate exceeding the country-wide average and considerably exceeding the global

TABLE 5

Soviet Union: estimated composition of producer- and consumer-goods output by type of products

(Percentage of total)

	1965	*1966*	*1967*	*1968*	*1969*
Producer goods [a]					
Fuels	8.0	7.8	7.5	7.2	7.1
Electric energy	3.2	3.2	3.2	3.2	3.3
Metals	8.6	8.7	8.5	8.4	8.1
Machinery and equipment	26.8	27.5	28.1	28.7	30.3
Chemicals	8.6	8.9	9.2	9.5	9.7
Construction materials	8.1	8.1	8.0	7.9	7.7
Timber, pulp and paper products	7.1	6.8	6.6	6.3	6.0
Products of light industry	15.5	15.5	15.7	15.7	15.5
Products of the food-processing industry .	14.1	13.5	13.2	12.8	12.4
Consumer goods [a]					
Products of the light industry	30.6	31.1	31.5	31.8	31.8
Products of food-processing industry . .	48.0	46.8	45.7	44.5	43.6
Cultural and amenity goods	11.5	12.1	12.8	13.7	14.6
Other [b]	10.0	10.0	10.0	10.0	10.0

Source: Derived on the basis of sectoral indices of output and the 1965 shares as given by Ju Peshekhonov in *Voprosy Ekonomiki*, No. 3, 1968.

NOTE. — With some exceptions, obtained on the assumption that the share of producer goods and of consumer goods in the output of the individual industrial branches has remained unchanged since 1965. The estimated increase in the output of the two sectors on the basis of this assumption is as follows (*per cent*):

	1966	*1967*	*1968*	*1969*
Producer goods	8.9	10.0	8.6	7.4
Consumer goods . . .	7.0	9.8	7.8	6.2

It can be seen by comparing the above figures with those provided in the text that, while the 1966 figures for both sectors and the 1967 figure for the producer-goods sector are practically identical, some differences arise in other cases, particularly in 1968 and 1969, the estimated growth of the producer-goods sector being higher and that of the consumer-goods sector lower than that which was actually registered. This reflects the inadequacy of the underlying assumption, especially with respect to the composition of output of the light and food industries, an increasing proportion of which was apparently directed to the consumer market in both of the years mentioned. The exceptions mentioned at the beginning of this note refer to (*a*) output of "cultural and amenities goods" for which indexes are available (see footnote 19 on p. 14) and (*b*) to "other" consumer-goods output for which it was assumed that their rate of expansion was equal to that of consumer goods as a whole.

[a] In 1968, the relative shares of producer- and consumer-goods output in total industrial production was 74.4 and 25.6 per cent respectively in terms of wholesale prices at the enterprise level, excluding turnover taxes levied on raw-materials inputs of the light and food-processing industries.

[b] Includes fuel, energy, metals, construction materials, glass and ceramics and some other non-specified products turned out by predominantly producer-goods industries for supply to the consumer market.

production targets, as shown by the following figures (percentage increases over previous year):[17]

	1967	*1968*	*1969 plan*	*1969 actual*	*1970 plan*
Byelorussian SSR . . .	13	12	8.5	11	9
Ukrainian SSR	9	8	6	7.6	5.8-6.0

The " lead " established for the first time in 1968 of the consumer sector was preserved in 1969, and the 1970 plan provides for a structural growth pattern even more favourable to this sector. As can be seen from the figures below, in 1969 the producer- and the consumer-goods sectors reduced their growth rates proportionally and the growth relationship was exactly as planned. The 1970 plan provides for a growth ratio of the producer to the consumer sector of 0.90—the lowest figure in the post-war development period. If realized, the growth of the two sectors would be practically identical for the five-year plan period.

	A. Producer goods	*B. Consumer goods*	*A/B*
	Annual percentage changes		
1966	9.4	7.0	1.34
1967	10.2	9.0	1.13
1968	8.0	8.3	0.96
1969 plan	7.2	7.5	0.96
1969 actual	6.9	7.2	0.96
1970 plan	6.1	6.8	0.90
	Average percentage change		
1966 to 1970 directives .	8.3-8.7	7.4-7.9	1.12-1.10
1966 to 1970 modified plan	9.2	8.3	1.11
1966 to 1969 actual . .	8.6	8.2	1.05

As can be seen from table 4, the composition of the output of both the producer- and the consumer-goods sectors has been undergoing considerable changes in recent years. Within the producer-goods sector, the share of machinery and chemicals has been rising steadily, that of electric energy has remained rather stable, while that of the other branches has tended to decline.[18] Within the consumer-goods sector, the rather pronounced shifts included a sharp rise in the shares in "cultural and amenity goods " (about 75 per cent of which consist of consumer durables) and a corresponding decline in the share of foodstuffs. Developments in 1969 tended to accentuate these trends, particularly with respect to the rising shares of machinery output in the producer-goods sector, and of durable goods in the consumer-goods sector. The supply of some consumer durables is still inadequate, however, and a further steep rise in their proportion is to be expected.[19]

Changes in the growth rates of the various branches included a slight acceleration in the fuel industry and a slow-down in the other branches except in engineering where growth has remained remarkably stable since 1965. The slow-down was moderate in the energy, food-processing and the—already slowly-expanding—timber, woodworking and paper industries, but was more pronounced in the chemicals industry and rather strong in metallurgical, building-materials and light industries.

The growth of the fuel industry increased from some 4 to 5 per cent, reflecting a resumed expansion of coal output. The growth rate of natural gas output was maintained, but that of petroleum declined further. Measured in terms of calorific content, the increase in supplies was apparently greater than in the preceding year. An intensification of strains occurred, however, in the first quarter—this being the effect of an extremely hard winter. In order to cope with the situation, special measures had to be undertaken by a decree of the Council of Ministries with the object of speeding-up production and economizing on the consumption of fuels.

Coal output rose to a level of 608 million tons, a 2 per cent increase over 1968, and the plan for 1970 calls for an output of 618 million tons. The latter figure, although lower than that contained in the directives (some 650 million tons), reflects a renewed interest in the expansion of output.[20] However, as was mentioned in last year's *Economic Survey for Europe*, the main tasks facing the coal industry are those of improving the product mix (increasing the share of coking and other high quality coals), modernization and re-equipment. The task of modernization was the subject of a special decree of the Council of Ministries in April 1969, setting forth a programme for the next six to seven years. At present, mines with some 80 million tons of extracting capacity are in the process of being modernized and re-equipped.

Oil output reached 328 million tons in 1969, slightly more than postulated in the annual plan and in line with the five-year target.[21] But natural gas output—183 billion cubic metres—was once again below target. Difficulties in the development of new deposits situated in the eastern and northern territories, and in the installation of pipe lines in distant regions (aggravated by the exceptionally severe winter), as well as engineering problems in the production of large diameter pipelines, have been mentioned as the cause of the lag.

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[17] Additional information on output of major commodities in the Byelorussian and Ukrainian Republics is given in appendix table II.

[18] With the exception of light industry, the estimates for which may be subject, however, to a relatively wide margin of error particularly in 1968 and 1969. See footnote to table 5.

[19] Production of " cultural and amenity goods " rose by 13 per cent in 1969, making the average growth rate in the past four years 14.3 per cent. In 1970, production should rise by a further 11.6 per cent.

[20] The 1966-1970 plan for the expansion of the coal industry had apparently been abandoned as no increase in output was postulated in the 1968 and 1969 plans.

[21] Of the total increment of 19 million tons, about 9 million was obtained from western Siberia, about 3 million from western Kazakhstan (Mangyshlsk Peninsula) and 1 million from the new Byelorussian fields. The current development plans for these regions were described in last year's SURVEY (see chapter II, footnote 81, page 121). The Siberian oil industry is developing faster than was foreseen until recently. Having provided its first supply of oil only five years ago, the western Siberian region produced 6 million tons in 1967, 12 million tons in 1968 and 21 million tons in 1969. The 1970 target is now 30 million, compared with 25 to 30 million tons provided for in the directives, and plans are to turn the area into the largest producing region in the Soviet Union. According to a decree of the Council of Ministries published in January 1970, production is to reach 100 to 120 million tons by 1975 and 230 to 260 million tons by 1980. Steps are envisaged to improve housing and transportation and otherwise overcome difficulties presented by terrain and climate. Notwithstanding the added expenditure on infrastructure, production costs are expected to decline, as the scale of extraction increases, the region becoming the cheapest producer by 1972.

Output of the power industry increased by some 9 per cent, production of electric energy rising 8 per cent and generating capacity by about the same rate. Similar changes are expected in 1970, the plan postulating an output of 740 billion kWh with generating capacity reaching 166 million KW. As in the past year, household consumption, particularly in rural areas, is scheduled to grow at a faster rate than total supplies:

Planned increases (percentages)

	1969	*1970*
Industry	7.0	. .
Agriculture	11.5	. .
Urban population	9.4	9.0
Rural population	11.4	14.0

The 4 per cent increase in output of metallurgy was the lowest obtained in the 1960s. Output of ferrous metallurgy rose by some 3 per cent and that of non-ferrous metallurgy by some 7 per cent,[22] the former somewhat less than planned and the latter about equal to the planned rate. The rate of expansion of steel and rolled products output—which had been low in 1968—underwent a further decline (steel from 4.7 to 3.7 per cent and rolled products from 4.4 to 2.6 per cent); the 1970 plan now provides for production of steel and of rolled products below the targets envisaged in the five-year programme.[23] Some upturn in the expansion rate for ferrous metallurgy is expected in the current year, steel output being scheduled to rise by 4.1 per cent and finished rolled metal output by 4.9 per cent. For non-ferrous metals, the 1970 plan calls for a 6.7 per cent rise in the production of aluminium, 5.7 per cent in copper and 7.2 per cent in zinc, apparently giving a total figure in line with that attained last year.

The engineering and metal-working industry overfulfilled its production target for the fourth consecutive year. As in the previous year, the rate of increase in 1969 was 12 per cent, as against a significantly lower annual target and an 11.2 per cent annual average postulated in the five-year plan. Above-plan production was reported by all industrial ministries, the margin of over-fulfilment once again being highest in the section under the ministry for instrument-making, means of automation and control systems. As can be seen from the figures below, this section expanded production by as much as 19 per cent, a further improvement over the rate in the preceding year. Relatively little change was registered in the growth rates of the other sections, the most pronounced being those in the chemicals and petroleum machine-building and the machine tool sections in which output grew at a somewhat slower rate, and in the machine-building for light industry, food industry and household appliances sections in which output grew at a somewhat faster rate than in 1968.

Industrial Ministry	*Index numbers (preceding year = 100)* *1967*	*1968*	*1969*
Heavy industry, power and transport machine-building	109	106	107
Construction, road building and civil engineering	111	111	111
Chemicals and petroleum machine building	111	112	110
Metal tool and tool industry	111	111	109
Motor-vehicle industry	113	111	110
Tractor and farm machine-building	109	107	108
Machine-building for light industry, food industry and household appliances	114	109	111
Electrical equipment industry	109	110	109
Instrument-making, means of automation and control systems	117	118	119

Few indices have been published on changes in output of individual items, and the meaning of those that are available has tended to become increasingly restricted as a result of product changes in the direction of greater diversification and quality improvement. Little change was reported in the production of such major items as metal cutting and pressing machine tools expressed in units, electric generators and motors expressed in terms of driving power, and metallurgical and oil equipment expressed in terms of weight. Although output of enterprises under the ministry of the motor-vehicle industry rose by 10 per cent in terms of constant prices, the number of motor-vehicles rose by only 5 per cent (of which passenger-cars by 4.7 per cent, trucks by 5.5 per cent), the difference apparently reflecting shifts in the product assortment.[24] Relatively large increments were reported, however, in the output of refrigerators (17 per cent),[25] television sets (15 per cent) and washing machines (10 per cent).

Little change is apparently to be expected in the growth pattern of the engineering and metal working industry in 1970. The annual plan provides for a growth rate of 9.2 per cent which is in line with the plans for the preceding years. The instrument-making and automation equipment section is to retain its lead with a 16 per cent growth rate, computer output being scheduled to rise 40 per cent. In the tool industry, the production of automatic and semi-automatic lines is to increase by 35 per cent, production of machine tools with programming control by 3.2 times and technological equipment for iron casting by 18 per cent. Output of farm machinery is to rise by 6.3 per cent to a value of 2.1 billion roubles, the production of equipment for stock-breeding rising especially fast. Output of motor-vehicles is to reach a level of 922 thousand units, or 9.6 per cent higher than in 1968. This includes a 19 per cent increase in the output of passenger-cars and a 4.5 per cent increase in the output of trucks.[26]

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[22] Data refer to output changes in enterprises under the ministries of ferrous and non-ferrous metallurgy, respectively.

[23] Production targets of 124 to 129 million tons of steel and 95 to 99 million tons of rolled products were given in the directives. The targets were later modified to 124 million tons of steel and 94 million tons of rolled products.

[24] A wide programme of reconstruction and modernization of the industry is being implemented. This includes in addition to the complete changes in the models of passenger-cars, far-reaching shifts in the assortment of trucks. Existing works are being re-equipped for the production of heavier types of trucks and construction has been started of a new plant in the Middle Povolzhie region which will be capable of turning out annually 150 thousand three-axle trucks (or diesel) of eight to eleven tons carrying capacity. Co-operation is envisaged with the French " Renault " firm in the production of both passenger-cars and trucks in accordance with a recently signed agreement.

[25] In spite of the rapid growth of refrigerator production in recent years, supply is still inadequate. In May 1969 a decision was taken to grant additional investments for the building of new plants and for the reconstruction of existing producing facilities.

The 10 per cent growth of the chemical industry, although nearly as planned, represented a rather unsatisfactory achievement in the light of the five-year target. The expansion rate of this industry in the past four years amounted to an average of 11.9 per cent against a 14.8 per cent target. Rather modest results were attained during the year in such priority outputs as chemical fertilizers and artificial and synthetic fibres (growth rates of 5.9 and 5.2 per cent respectively); and the output of plastics and resins also lagged behind the target even though it rose by 12.4 per cent. A speed-up of the expansion of fertilizer and synthetic fibre production is currently expected, with growth targets for 1970 of 25 and 19 per cent respectively. Other important figures specified in the plan are an increase in the production of plastics and resins of 12.8 per cent and of synthetic rubber of 9.2 per cent. But shortages in the supply of some chemicals will continue to be felt, according to published statements.

Poor weather conditions were apparently a factor in the continued slow-down of the growth rate of the timber, woodwork and paper industry. Timber and sawnwood sections were especially influenced, but the performance of the final product sections was also unsatisfactory. The increase in paper output (about 2 per cent) was less than planned. Production of furniture rose by 7 per cent against 10 per cent in the preceding year. This set the average growth rate during 1966-1969 at 8.7 per cent, which was still high enough to provide a basis for a significant over-fulfilment of the five-year target.

The tasks now confronting the timber, woodwork and paper industry are in the direction of greater efficiency, a better utilization of production capacity and of materials input and an improvement in product assortment. Great attention is also being paid to increased use of chemical and chemical mechanical methods of wood-processing, which at present are still practised on a small scale.

The light industry expanded its output by 6 per cent: although less than planned this was still an impressive rate. The slow-down after a period of exceptionally fast growth was said to be due to diminished supplies of agricultural raw materials, especially cotton and wool, the anticipation of which prompted a revision of the original plan target (from 7.5 to 5.9 per cent). Average annual growth in the past four years has been 8.7 per cent, in sharp contrast with the much slower rates in the early 1960s and in excess of the five-year target of 7.8 per cent. Growth in the knitted outerwear section accelerated from 18 to 20 per cent, and the ready-made clothing industry expanded production by 11 per cent. The latter, although representing a slower growth, meant a level of output of 12.2 billion roubles (in retail prices) as compared with an 8.7 billion rouble target in the directives for 1970. The five-year goal was also exceeded by the leather footwear industry, which in 1969 produced 635 million pairs of shoes as against 610-630 million foreseen (for 1970) in the directives.

According to the 1970 plan, output of light industry is to grow by 5.5 per cent in the current year. Continued effort is being made to improve the quality and widen the assortment of production. A programme of modernization and reconstruction in this industry, covering the years 1970-1975, has recently been adopted.

The food industry continued to expand at a slower rate than planned, mainly owing to inadequate agricultural supplies, a significant gap having accumulated between plan and actual results in the past four years. The 4 per cent gain in the aggregate output of this branch reflected the unusually favourable growth of the fish and sea products section, the output of which increased by 16 per cent. The performance of the confectionary section, with a growth of 8 per cent, was also relatively favourable. Output of meat and meat products, canned foods, butter and dairy products remained little changed from 1968.

(ii) East European countries

The estimated 7.5 per cent increase in industrial production in eastern Europe hides a rather wide spectrum for the individual countries, growth rates ranging from 3 per cent in Hungary to 11 per cent in Albania. Following the pattern of preceding years, the fastest expansion was recorded among the less-industrialized countries in the group—Albania, Bulgaria and Romania. In these three countries, global industrial production rose in 1969 by between 10 and 11 per cent, in the two latter, at least, growth rates being above the estimated trend lines.[27] Poland followed with a rate of 8.9 per cent and then came eastern Germany with 7 per cent, both of these rates also exceeding the estimated longer-term trends. Czechoslovakia and Hungary had the lowest growth rates; in both countries they were below the long-term trends.

Eastern Germany was the only country where the rate of growth of industrial production was higher in 1969 than in the preceding year. The slow-down was marked in Albania and Hungary, and rather slight in all the other countries. In some countries, a slowing down had been foreshadowed in the annual plans, but only in Poland was the plan over-fulfilled, rather wide gaps being registered in Czechoslovakia and Hungary. In this respect, the situation—though somewhat similar to that in 1968—contrasted sharply with that during the first two years of the current five-year plan period, when industrial output plans were everywhere considerably over-fulfilled.

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[26] The plan calls for the production of 527 thousand trucks, 348 thousand passenger-cars (of which 30 thousand will come from the Volga plant built in co-operation with the Fiat firm), and 47 thousand buses.

[27] Reference is once again made here to the projected trend values for the period 1965-1980, as shown in table 2.31 of part I, chapter 2 of this SURVEY.

Quarterly production indices (seasonally adjusted) indicate that Romania was the only country with a steadily-rising level of production throughout the year (see text table below). In Poland, there was very little growth in the fourth quarter and in Bulgaria no growth at all in the third quarter. In eastern Germany, most of the growth occurred in the first quarter, although the second and third also brought some advance. In Czechoslovakia, production declined in the first quarter and remained unchanged in the second; it rose only in the third and fourth quarters. In Hungary, growth occurred only in the third quarter.

Seasonally-adjusted indices of global industrial production in eastern Europe

(1965 = 100)

Country	Quarters			
	I	*II*	*III*	*IV*
Bulgaria				
1968	140	143	143	148
1969	154	158	158	161
Czechoslovakia				
1968	118	118	118	124
1969	122	122	127	132
Eastern Germany				
1968	117	120	120	124
1969	127	128	131	130
Hungary				
1968	121	125	123	123
1969	124	123	129	128
Poland				
1968	124	123	128	129
1969	134	136	140	141
Romania				
1968	135	140	145	144
1969	149	154	158	162

Sources: Derived from national statistics; and United Nations, ECE, *Statistical Indicators of Short-term Economic Changes in ECE Countries.*

At the time of reporting, no details are available on the development of *Albanian* industry in 1969. Global industrial production was reported to have risen 11 per cent—the most dynamic areas being oil extraction, ferro-nickel mining, engineering and the building materials industries. Output of the light and the food-processing industries (still accounting for three-fifths of industrial production) must have risen at a significantly lower rate than in the preceding year, reflecting the slow-down in agricultural supplies following the 1968 harvest. The 1970 plan provides for a growth rate of industrial production of 7.5 per cent (producer goods by 7.9 per cent and consumer goods by 7.1 per cent).

A slight speed-up in the rhythm of industrial expansion and the continuation of the exceptionally high growth rate of labour productivity enjoyed in the preceding two years were among the important tasks for *Bulgarian* industry in 1969. In neither of these areas has performance been fully as planned. Global industrial production was reported to have risen 10 per cent, which—although almost matching the performance of 1968—was somewhat less than expected. Labour productivity grew by 6.3 per cent and output per man-hour by 8.3 per cent,[28] which, although representing a very substantial advance, was less than planned and fell significantly below the 9.1 and 9.6 per cent rates respectively in the previous year. Moreover, the implied increase in employment of 3.5 per cent represented a reversal of the trend in the preceding two years, indicating a weakening of the effort to stem the inflow of labour from agriculture and to utilize more efficiently the labour force already recruited.[29]

The upswing in production in the last quarter of 1968 had provided a good basis for the attainment of the output target, but bad weather conditions and organizational difficulties in some cases overshadowed the expected achievement. The freezing of the Danube and the seaports of the USSR created obstacles to the supply of imported materials. This was an impeding factor in the building industry and had an unfavourable impact on the output of a number of branches, notably the metallurgical and chemical industries where delays in bringing new capacities into operation occurred. A lower than expected flow of agricultural supplies was another element limiting expansion. In some cases an irregular inflow of materials caused idleness of labour, with a detrimental effect on productivity growth.

While exact data are not available, it would appear that the growth of the producer-goods sector was somewhat higher and that of the consumer-goods sector lower than in 1968.[30] Among the predominantly producer-goods branches, the fuel, engineering and metal-working, and timber and wood-work industries, grew faster than in the preceding year; the fuel industry grew very significantly faster. By contrast the growth rates of the metallurgical, chemical, building materials, and pulp and paper industries were much slower. Among the predominantly consumer-goods branches, the textile industry expanded

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[28] The difference between the two indices is largely the effect of the shortening of the working week to five days in some parts of the industry.

[29] Changes in employment and labour productivity by branches were as follows *(preceding year = 100)*:

	Employment	*Output per man*
Fuel	99.5	125.1
Iron and steel	104.1	104.7
Non-ferrous metallurgy	96.2	107.9
Engineering and metal working	107.3	107.5
Chemicals and rubber	106.8	110.9
Construction materials	98.7	105.1
Timber, woodworking	100.8	105.5
Textiles and clothing	103.9	102.5
Fur, leather and shoes	102.3	101.4
Food processing	99.4	105.2

[30] The plan provided for 12 per cent increase in producer goods and 10 per cent rise for consumer goods. In 1968, output of producer goods had risen by 11 per cent and consumer goods by 10 per cent.

faster than, and the food-processing industry at about the same rate as in the previous year. The growth rate of clothing and fur, leather and footwear industries decelerated sharply, however. The expansion of output of consumer durables and other items turned out by predominantly producer-goods branches was also apparently lower than in the previous year, presently accounting for about 26 per cent of the total of consumer-goods production.[31]

Output of electricity increased 11.5 per cent, generating capacity rising by as much as a quarter. The fuel extraction and processing industry increased production by 24.5 per cent, mainly in connexion with an upsurge in the output of the oil processing industry.[32] Coal output rose 8.7 per cent after having remained unchanged in 1968.[33] The relatively slow growth of the iron and steel industry (9 per cent) as compared with past years masked a further substantial rise in output (of 18 per cent) of rolled products; output of pig-iron and raw steel rose little (1.7 per cent and 3.7 per cent respectively) and remained significantly below plan.[34] The engineering and metal-work industry expanded production by 15.3 per cent, emphasis being given to radio-electronics, machine tools, means of automation and lift-transport sections.[35] Although supplies to the consumer market registered a significant advance, output of television sets and refrigerators rose at a slower rate than in 1968: 14 and 30.5 per cent respectively, against 18 per cent and 51 per cent. The 18 per cent increase in the output of the chemical industry reflected considerable gains in the output of plastics and synthetic resins (27 per cent), caustic soda (19 per cent), soda ash (18 per cent) and pharmaceuticals. Output of synthetic fibres, first started in 1968, rose 3.4 times. Taken together, output of the light industries rose by 6.5 per cent (12 per cent in 1968), failing to reach the annual target. The food-processing industry, although maintaining its growth rate, also expanded more slowly than planned, mainly because of the unsatisfactory results in animal breeding.

According to the plan for the current year, industrial production is to rise 8.2 per cent and labour productivity 9.0 per cent. The former is equivalent to the lowest target in the 1960s. On the other hand, the growth of labour productivity is for the first time set to exceed the growth of production. The decline in the industrial growth rate, while partly due to a slow-down in the rate of completion of new capacities, also reflects the desire for a more selective policy with respect to the development of various branches and sections. The latter is seen as a pre-condition for the heightening of the effectiveness of the economy and the raising of the " social productivity " of labour.

Measured in terms of global indices, the rate of growth of *Czechoslovak* industry was about the same in 1969 as in the preceding year. The economic disruption which began in the course of 1968 carried over to the early part of 1969, some difficulties being aggravated by poor weather conditions. It was only in the second part of the year that the rhythm of growth became stronger following the stabilization measures.[36] Total output expanded by 5.2 per cent, which was slightly less than the (upward revised) figure reported for 1968 but significantly below the target of 7.2 per cent stipulated in the annual plan.

More disturbing than the relatively modest quantitative performance has been the appearance of grave shortages in the supply of a number of important producer materials and products, and the inability of industry to meet consumer demand in a wide area. A particularly difficult situation prevailed in the supply of electric energy, coal, construction materials and some metals. A decline in the supply of some agricultural products—especially of meat and some imports of raw materials for the light industry—provided an additional barrier to expansion. Other discouraging features were the lack of interest on the part of producers in modifying their product assortment and in producing items in short supply, and the generally inadequate labour discipline.

Industrial deliveries were more flexible in responding to the prevailing high pressure of demand and rose at a significantly higher rate than production, implying a substantial stock reduction. Total industrial deliveries increased by 6.8 per cent, and final deliveries (i.e. deliveries outside the industrial sector) achieved a rise of 9.5 per cent which, in relation to output growth, was unprecedented. Both these indices compared favourably not only with those for 1968 but also with those for 1967, when the growth of output had been significantly faster than in 1969. The rate of expansion of export deliveries

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[31] Of the remainder, the food industry accounts for 47 per cent, and the light industries (textiles, clothing and the leather, fur and shoe industries) for 27 per cent.

[32] Output of crude oil, accounting for a rather low proportion of the total, rose 42.5 per cent. The contribution of the oil-processing industry (working mostly on imported oil) was, apparently, more important, the following increases having been reported: gasoline 39 per cent, diesel oil 40 per cent, fuel oil 30 per cent. During the year, capacities for processing of 400 thousand tons of crude oil became operational.

[33] Owing to significantly expanded imports and rising domestic production of crude oil, the share of coal in the total fuel supply has been dwindling rapidly in recent years:

	Per cent of total supply		
	1965	*1969*	*1975 plan*
Coal	62.3	49.7	37.0
Oil and gas	31.0	45.6	60.6
Other	6.7	4.7	2.4

[34] The 1969 plan called for a production of 1,200 thousand tons of pig-iron, 1,650 thousand tons of steel and 1,250 thousand tons of rolled metals. The actual production figures were: pig-iron 1,130 thousand tons, steel 1,520 thousand tons and rolled products 1,215 thousand tons. During the year, the capacity of the iron and steel industry was expanded by the addition of a blast furnace, with an annual output of 517 thousand tons of pig-iron, electric furnaces for the output of 130 thousand tons of steel and rolling mill plant with an output of 500 thousand tons of rolled metals.

[35] The share of the instrument-making and computer techniques and electronics section was reported to have reached 12 per cent; it is to rise by 1975 to 35 to 40 per cent.

[36] This can be seen from the following output indices (comparable period of the preceding year = 100):

	First half of the year	*Third quarter*	*Fourth quarter*
1967 [a]	106.0	106.8	109.7
1968 [a]	106.2	103.7	105.7
1969	103.5	107.4	106.3

[a] Figures slightly adjusted to correspond to the over-all growth rate reported for the year.

increased from 3.4 per cent to 8.0 per cent, while the growth of investment deliveries accelerated from 6.8 per cent to 14.0 per cent. The growth of deliveries to the consumer market was maintained at 8.6 per cent.

	Per cent of total 1969	*Annual percentage changes*			
		1967	*1968*	*1969*	*1970 plan*
Total industrial deliveries [a]	100.0	6.7	5.4	6.8	. .
of which:					
Inter-industry deliveries	61.3	. .	. .	5.2	. .
Final deliveries	38.7	6.8	6.5	9.5	. .
Consumer market	16.5	5.8	8.7	8.6	6.3
Investment	4.4	2.0	6.8	14.0	. .
Export	13.9	10.1	3.4	8.0	. .

[a] In comparable prices at the wholesale level, the price base changing each year.

Output of producer goods rose at a higher rate than in the preceding year (6.1 per cent against 5.4 per cent) whereas output of consumer goods rose at a lower rate (3.8 per cent against 5.8 per cent). The change in the growth ratio of the two sectors represented a drastic change from the trend in preceding years, in which the structure of production has been changing continously in favour of consumer-goods output.[37]

Among the predominantly producer-goods branches, the expansion of the fuel, metal-making and chemical industries was faster, and that of energy, metal processing and building industries slower, than in the previous year. The deceleration in consumer-goods output reflected primarily a sharp decline in the output growth of the food-processing industry, although the consumer durable section also developed at a slower rate than in 1968. The growth of the light industries [38] was faster, aggregate output having risen by 4.7 per cent against 2.3 per cent in 1968.

Output of the fuel extraction and processing industry rose by 8.5 per cent after the 6.3 per cent increase in 1968, thus marking the second year of rather fast growth. To a large extent this was apparently the effect of an expansion of oil processing.[39] However, the coal industry also performed relatively well, output of brown coal, which had been stationary since 1965, rose by 5.4 per cent in 1968 and by a further 6.2 per cent in 1969, and the past year witnessed a revival of the expansion of hard coal output with a growth of 4.4 per cent. Taken together, the increment in coal output in 1969 alone amounted to some 5 million tons which, although very substantial, was insufficient to meet the rise in demand. Further development of the coal industry is now envisaged, this being contrary to postulates on which later revisions of the present five-year plan have been based.[40]

Electricity supply, which was still adequate in 1968, also fell below the level of demand, the 1.4 per cent increase in output being the lowest recorded in the past two decades. The expansion of output of pig-iron (1.3 per cent) and of steel (2.3 per cent) was extremely modest. Output of rolled products remained at the level of the preceding year [41] and shortages were reported in the supply to the domestic market. The 6.9 per cent increase in the output of engineering and metal-work industry masked a somewhat higher increase in the output of consumer goods (8.2 per cent) than of investment goods (6.7 per cent). However, when compared with the preceding year, growth proportions seem to have been considerably less favourable for the consumer sector:

	Output indices (preceding year = 100)	
	1968	*1969*
Passengers-cars	112.5	105.5 [a]
Television sets	136.7	109.1
Radios and record players	158.6	93.8
Refrigerators	107.9	89.6

[a] The small increase was reported to have been due to fire at the Mlada Boleslav works.

Of the remaining predominantly producer-goods branches, the chemical industry increased production by 9.4 per cent, including a 10.8 per cent increment in the output of basic chemicals. The building materials industry, on the other hand, expanded production by only 3.2 per cent, which was inadequate to meet demand. Although some sections of the light industry raised production faster than in the preceding year, a tight situation was reported in the supply of most products. The downswing in the growth rate of the food-processing industry from 4.2 per cent to 1.3 per cent reflected a decline in meat output by 4.0 per cent, and of industrially processed milk by 5 per cent, whereas output of butter remained unchanged.

Developments in the field of industrial labour productivity were rather favourable in Czechoslovakia in 1969. The growth of output per man was somewhat higher than in 1968 (4.6 per cent as against 4.2 per cent) the expansion of employment being lower (0.6 per cent against 1.2 per cent). But more important than these changes was the fact that the significant shortening of the working week—

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[37] This is indicated by the following figures:

	1965	*1966*	*1967*	*1968*	*1969*
A. Producer goods	9.2	8.3	7.5	5.4 [a]	6.1
B. Consumer goods	5.7	5.9	6.4	5.8 [a]	3.8

[a] Revised figure.

[38] These include, in Czechoslovakia, in addition to the textiles, clothing, fur, leather and footwear industries, some sections of the glass and china industry as well as printing and publishing.

[39] While no data are available, this can be judged from the fact that crude oil imports rose from 7.4 to 9.3 million tons between 1967 and 1969, i.e. by 27 per cent.

[40] It is not easy to identify the factors behind the sudden increase in demand and the ensuing need to modify the strategy for the development of the coal industry. The hard 1968/1969 winter is one explanatory factor, but others of a more structural nature have been cited as well. One of the explanations given by Mr. Hula, Minister of Planning, is that a more rapid rate of replacement of coal by oil had been envisaged than users were able or willing to accept, with a consequent disequilibrium in the structure of fuel output in relation to the pattern of demand.

[41] According to information available for 10 months, it would appear that the 3.2 per cent increase in the output of ferrous metallurgy was partly a result of changes in the composition of output.

which took place in connexion with the transition to a five-day week[42]—had no visible effect on productivity.

The 1970 plan aims at restoring balance in the spheres of both production and of market supply. In terms of industrial targets, this means an acceleration of the production growth rate to 6.5 per cent, and of labour productivity to 5.5 per cent. Emphasis is placed on basic material and energy-supplying branches, especially construction materials. However, output of consumer goods is also to be accelerated significantly particularly in those sections where inadequate supply of raw materials—rather than limitations in production capacity—has been the main impeding factor.

Although a stringent situation in electricity and in fuel supplies had a detrimental effect on the development of a number of *east German* industrial branches, the 7 per cent increase in 1969 in global " commodity production " compared favourably with the corresponding rise in the preceding year (6.1) per cent and was exactly as planned. As in the past, the increase in output was entirely due to higher output per man. Employment rose little, if at all, the rise in production being facilitated by the transfer of workers from some basic and light industries to " key development " branches.[43] Efforts have continued to introduce mechanization and automation on a large scale.

The movement towards specialization and concentration of industrial production seems to have accelerated in 1969. A series of new combinates has been established in branches which are of strategic importance for the implementation of the structural policy, and others are planned for 1970. The intention is to build up a spearhead sector within the industrial complex, where advanced technologies and modern management techniques will be applied. These combinates will be equipped with large-scale research centres and are to be given priority attention in respect of automated production installations and electronic data-processing machinery. (See section 7 of this chapter.)

Great efforts are also being made to promote a better utilization of available production facilities and a more rational use of material supplies. Complaints have become more frequent that modern expensive installations are often underutilized, that multiple shift work is not sufficiently applied[44] and that the rhythm of production is very uneven during the year, causing unnecessary losses.[45] A high energy and " material intensity " of production continues to come under criticism[46] and attention has been drawn to the neglect of scrap-iron collection and possibilities of utilization of certain other waste materials.

In view of the limited data available, the branch pattern of expansion of east German industry in 1969 can be examined only by means of data pertaining to industries by ministerial departments. The figures presented in the table below (which do not fully correspond in coverage to the over-all growth figures shown in table 2) show an upswing in the rate of growth of output in all departments, most significantly in the output of basic industries, metallurgy and potash, and light industries. Growth rates substantially above average were attained by the electro-technical and electronics industries (although the plan target was not completely met) where output of " structurally important " products is concentrated and by the processing machinery and transport equipment ministry. Some ministries, notably that for basic industries, failed to fulfil their production targets whereas others performed better than planned.

Annual percentage changes

Industrial ministry	*1968*	*1969*		*1970 Plan*
		Actual	*Plan*	
Basic industries	2.5	4.0	6	7.0
Metallurgy and potash industry [a]	5.7	8.0	8	4.7
Chemical industry	7.8	8.4	9	11.3
Electro-technical and electronics	8.6	11.4	13	15.1
Heavy engineering and complete installations	4.7	6.9	8	8.2
Processing machinery and transport equipment	9.3	10.4	9	9.5
Light industry	4.1	6.2	6	6.4
Locally administered industry and food processing	5.9	6.8	6	6.8

[a] Including mining of metal ore.

The 2.9 per cent increase in the output of electricity was among the lowest in the post-war development period. Output of brown coal rose 3.3 per cent and of gas 3.4 per cent. Output of fuel oils continued to rise at a fast rate of 24 per cent. In metallurgy a high rate of advance was registered in the output of rolled products (28.5 per cent), output of steel rose 2.7 per cent, while that of pig-iron declined by 10.1 per cent. While the engineering and metal-work industry performed rather well on the whole, output of a number of important consumer items continued to decline, or rose rather modestly as is shown by the following figures:[47]

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[42] The change was to take effect beginning 1969. Previously a five-day working week alternated with one of six days.

[43] Immigration of workers from other east European countries, especially Hungary and Poland, is known to take place. But it does not seem as yet to be of any great significance.

[44] The proportion of industrial workers in the second and third shifts (15.5 per cent and 7.3 per cent, respectively in 1968) has tended to decline slightly in the past three years.

[45] It has been stated, for instance, that in the engineering and metal-working industry, production in January is as a rule 20 per cent lower than in December of the preceding year. The problem of excessive fluctuations of production in the course of the year, also present in other countries of the region, was described in the *Economic Survey of Europe in 1965*, part I, chapter I, pp. 7, ff.

[46] Some data illustrating the problem of high " material intensity " were presented in the 1968 SURVEY (chapter II, p. 126). It has been stated more recently that the " energy intensity " of eastern Germany (measured in terms of calorific input per unit value of production) is 20 per cent higher than in other countries with a comparable industrial structure (*Die Wirtschaft*, No. 48, 1969, p. 6).

Annual percentage changes

	1968	*1969*
Passenger-cars	2.8	5.5
Refrigerators	− 6.5	−10.1
Radios	−12.6	− 7.9
Television sets	−15.6	−11.2
Washing machines	1.0	−20.2
Vacuum cleaners	3.3	2.0

In the chemicals industry, the expansion of basic product sections was rather slow. Output of chemical fertilizers rose 8 per cent, but chemical fibres 1.1 per cent, sulphuric acid 2.4 per cent, ammonium sulphate 6 per cent; output of such items as caustic soda, calcium carbide and soda ash declined. The industry would seem to be experiencing some adaptation difficulties in conversion from carbo- to petro-chemicals. Complaints have also been made about the organization of research and development whereby too much emphasis is placed on the development of new products while neglecting the improvement of production processes. Accelerated introduction of automated processing techniques is being envisaged. A special government decree aiming at the improvement of research organization in the chemical industry was issued in December 1969.

Little information is available regarding changes in the output of the various sections of light industry, except that output of knitted goods rose slightly and that of leather footwear remained more or less unchanged. Within the food-processing industry, meat production is reported to have increased by 3.3 per cent and output of dairy products by 6 per cent, despite the marked temporary set-back in agriculture.

The 1970 plan stipulates a further acceleration of the growth rate of total industrial commodity production, to 8.4 per cent. Output growth is expected to be especially rapid in the electro-technical and electronics and the chemical branches. Some transfer of labour to basic industries—which have been rather neglected in recent years—ought to permit a rise in output of this branch of 7 per cent. Employment in locally administered industry and the food industry, by contrast, will be reduced. A sizeable contraction in the growth rate of metallurgy is another rather striking feature of the development planned for 1970.

The growth rate of *Hungarian* industry slowed down further in 1969. Gross industrial production rose by some 3 per cent and, whereas the expansion of net output was somewhat steeper (between 4 and 5 per cent according to preliminary figures) it was slightly less than the 1968 rate (5.3 per cent) and well below the much better record turned out in the first two years of the five-year plan period. However, for the first time in a number of years the growth of final industrial deliveries considerably exceeded the growth of production, suggesting an increased effectiveness in meeting internal and external demand. Total deliveries (i.e., including inter-industry deliveries) rose at about the same rate as production, this also representing a better performance than in most of the preceding years when stock formation tended to absorb an increasing share of resources.

There were also, however, less desirable effects of the reform which contributed to the slow-down. The structure of production could only adapt itself gradually to rather abrupt changes in demand patterns, and this has been a more difficult process than planners expected. It was found that the new economic regulators have only a gradual influence on production standards so that, in a number of areas, domestic production was unable to compete with higher quality imports. On the other hand, the monopoly position of certain enterprises has led in some cases to price increases, and the shifting of deliveries to more favourable outlets, rather than production increases, has been used as a means of raising profitability. Insufficient flexibility on the part of trading organizations has been another retarding factor, mainly in the growth of the consumer sector. Trading enterprises, which were interested in increasing their profits through the system of incentives, placed orders for supplies only if they could sell them quickly, i.e. after having reduced inventories, on which they had to pay interest, to a minimum. By restricting orders in the first half of the year, production was kept down with the result that shortages appeared later in the year, particularly in the supply of products of the light industry.

Although unsatisfactory, the modest, and much lower than expected, rate of expansion has not been regarded as a subject for serious concern. It has been pointed out that, in introducing the new economic regulators, one of the major aims has been to make enterprises more demand oriented, and in this respect some success has been achieved. Signs of an accelerated process of improvement of the industrial structure are becoming evident: new products appear at a faster rate and consumers are offered a wider choice. Favourable changes were reported to have taken place, particularly in the structure of aluminium smelting, telecommunications and vacuum engineering, instrument-making, chemicals and some sectors of the food-processing industry. New technology and inter-industry co-operation are also evidently developing at a faster pace.

By contrast, the situation in the sphere of employment and labour productivity is regarded with some anxiety. Industrial employment rose by 4 per cent in 1968 and 3 per cent in 1969, thus accounting for practically all of the increase in output in these years. Taking into account that, owing to the introduction of a 44-hour working week in most enterprises, a decrease in the working time was effected in 1968 and 1969, an indicator relating production to man-hours might show an increase of some 9 per cent in the two years. But even this performance is not considered satisfactory, and it is now acknowledged that the instruments applied in this field have not been able either to curb employment growth or to provide sufficient incentive to stimulate a faster growth of labour productivity.

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[47] As can be seen from table 24, internal demand—at current prices and composition of supplies—for some important household appliances has been stagnating for a number of years; this was evidently not offset by a sufficient rise in exports.

As can be seen from the figures below, final industrial deliveries rose by more than 8 per cent in 1969, the corresponding figure for the preceding year being some 2 per cent. A speed-up in the expansion of deliveries was witnessed in all outlets, the improvement being striking in the case of investment and foreign trade:

Annual percentage changes

	Per cent of total 1969	*1967*	*1968*	*1969*
Total industrial deliveries .	100.0	9	4	3-4
of which:				
Inter-industry deliveries .	54.0	10	6	1
Final deliveries	46.0	7-8	1.8	8-9
Consumer market . .	23.2	8	4.4	7
Investment.	3.6	7-8	−3.4	11
Export	19.2	7	0.2	11

The deceleration of the over-all industrial growth rate reflected a slow-down in most branches. Only the energy industry grew faster than in 1968 while the food-processing industry grew at the same rate. Coal and crude oil output declined slightly, but output of natural gas rose 20 per cent, imports of coal 3 per cent and of crude oil 17 per cent; fuel stocks were low but no shortages were reported.[48] Output of electricity expanded 8 per cent, consumption rising less, however, owing to a decline in imports.[49] Output of metallurgy rose 4 per cent and sales 2 per cent. Output of steel rose 4 per cent and of rolled products 2 per cent, imports and exports of the latter rose by 6 per cent and 54 per cent respectively. Production of aluminium ingots rose 2 per cent with a fall in exports of 14 per cent.

A deceleration from 7 to 4 per cent took place in the expansion of the engineering and metal-working industry. The industry's sales rose 3 per cent as against 5 per cent in the preceding year, whereas deliveries of electrical machinery and electric appliances rose 8 per cent, and of telecommunication and vacuum-engineering products 4 per cent. High growth rates were registered in the production of export-oriented items: buses by 20 per cent (exports 19 per cent) and diesel locomotives by 15 per cent (exports 13 per cent). In the consumer appliance section, an unusually high rate of expansion was registered in the output of refrigerators (39 per cent) and vacuum cleaners (17 per cent). Output of tape-recorders rose 9 per cent, mostly for exports which rose by two-fifths, television sets 2 per cent, exports (about one-third of production) declining by 16 per cent. Output of washing machines decreased by 6 per cent after a similar fall in 1968. The growth rate of the chemical industry fell from 10 to 7 per cent, with the expansion of sales declining from 6 to 4 per cent, mainly in connexion with a decline in the sales of pharmaceutical products (accounting for 19 per cent of total sales) by 15 per cent. The development of nitrogenous fertilizer production was faster than in the preceding year—a 23 per cent increase. Output of synthetic and artificial fibres rose 3 per cent, synthetics increasing by 12 per cent, the latter also being an improvement over 1968. However, only modest increases were registered in the output of some other basic materials, and plastics and resins actually declined by 9 per cent.

Output of light industries declined by 2 per cent, sales having picked up by the same amount. Decreases in output were registered in all major sections. Output of the textile industry decreased 7 per cent, reflecting a 6 per cent decline in cotton fabrics (imports of raw cotton were reduced by 14 per cent), a 13 per cent decline in woollen fabrics and a 16 per cent increase in silk and silk-type fabrics, the latter in connexion with a rise in exports of as much as 36 per cent. Output of the fur, leather and shoe industry decreased by 3 per cent and of the clothing industry by 11 per cent, exports of some important items nonetheless rising sharply. The food industry, on the whole, performed well reflecting an upswing in agricultural supplies in the second half of the year. Output and sales rose 4 per cent, the latter comparing favourably with the 2 per cent increase in 1968. Marked increases were reported in the output of canned and frozen fruits and vegetables, sunflower oil, production and export of the latter—in particular—rising sharply (56 and 46 per cent respectively). Output of sugar was up 7 per cent, but that of meat was down 5 per cent and of butter 1 per cent, exports of the latter declining by 45 per cent.

The 1970 plan estimates for output, employment and productivity are identical with those which applied for 1969. But, while there is a similarity with regard to some other tasks, there are differences both in the conditions prevailing at the start of the year and the urgency attached to various outstanding problems. In contrast to the beginning of 1969, when considerable reserves were available in inventories of raw materials, the year 1970 begins with a more stringent supply situation, but the improvement in the convertible currency payments balance provides greater scope for an expansion of imports if this should become necessary. Trade inventories are also smaller, a rather marked disequilibrium between demand and supply having developed in some areas. It is hoped that the high level of demand, together with some changes in the system of regulators, will provide stronger incentives for enterprises to increase production and adapt themselves to demand requirements. Great urgency is also seen in the task of keeping employment growth within the planned limit, thus facilitating an improvement in labour productivity.

Polish industry was able not only to exceed comfortably its annual plan target, but by achieving the second-highest growth rate in the current quinquennium it widened the margin developed in the preceding year over and above the target in the five-year plan. Global production grew by 8.9 per cent and labour productivity by 5.3 per cent, the latter being more than planned although slightly less than in 1968. Moreover, for the first time in a number of years the growth of employment was more or less kept within the limits laid down in the annual plan,[50] having declined in proportion to the growth of output.

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[48] Extraction of natural gas exceeded 3 billion m^3, which is the level that had been planned for 1970. Coal and crude oil output has been stagnating or declining for a number of years, imports playing an increasing role in meeting demand. It is expected that, in 1970, between 36 and 37 per cent of fuel requirements will be met by imports, against 31 per cent in 1965. The share of oil and natural gas in the total fuel supply, which was 36 per cent in 1968, is expected to rise to 44-45 per cent in 1970.

[49] Industrial consumption, accounting for 74 per cent of the total, rose 4 per cent against 5 per cent in the preceding year. The increase in household consumption was identical for the two years (12 per cent).

Encouraging as these aspects were, the attention of the planners was focused on a number of other developments—giving rise to concern and shadowing the outlook for the near future. The year witnessed an intensification of the strain in the supply of raw materials, new construction and foreign trade, as well as a revival of tendencies to unjustified stock formation.[51] And little progress appeared to have been made in smoothing out other accumulated disproportions. The gap between the growth of producer- and consumer-goods output remained wide. The " extensive " growth pattern, characterized among other things by an excessive use of materials and an inadequate addition of net value such as should be possible with the skills and technology available, continued. Of particular concern was, on the one hand, rising material import requirements—partly due to their inefficient utilization—and, on the other, a decline in value in some areas of exports in relation to the value of materials used in their manufacturing.[52] The rate at which new products are developed and introduced was also of special importance; this was generally considered too slow and—according to some data—appeared to be deteriorating.[53]

The marginally slower growth of over-all industrial production was due to a slightly reduced expansion of the producer-goods sector. Output of this sector rose 9.9 per cent (10.7 per cent in 1968), whereas the consumer sector expanded by an even 6.9 per cent. However, the former exceeded the plan target whereas the latter barely reached it, and the growth ratio between the two sectors remained about the same as the average for the previous three years—out of line with the proportions stipulated in the five-year plan—as is shown by the following figures:

Annual percentage changes

	Average 1966-1968	*1969*		*1966-1970 plan*
		plan	*actual*	
A. Producer goods	9.2	8.9	9.9	8.2
B. Consumer goods	6.2	7.0	6.9	6.4
A/B	1.48	1.27	1.43	1.28

The branch pattern of expansion was rather similar to that in the preceding year. The only conspicuous change was the sharp acceleration of the growth of non-ferrous metallurgy. All of the other predominantly producer-goods branches had lower growth rates, the difference being generally minor, however. Among the predominantly consumer-goods branches, a slightly higher growth rate was registered in the clothing industry and a somewhat lower one in the leather and footwear industry. The growth rates of the textiles and food-processing industries were practically the same as in 1968.

Output of electricity rose at a steady 8.2 per cent, and installed capacity 11.0 per cent, but demand—in some regions—was reported to have not been fully satisfied. The growth of the fuel industry also by 8.2 per cent masked somewhat different changes in the various sections, coal output rising somewhat faster and oil production and processing slower than in 1968.[54] As in a number of other countries in the area, the rise in coal output was faster than planned. Shortages nonetheless appeared, reflecting internal demand increases as well as transportation difficulties. Output of steel rose 2.6 per cent and rolled products 4.5 per cent (of which quality steels by 7.4 per cent), the latter figure apparently representing an improvement over that of the preceding year.[55] The sharp increase in the growth rate of non-ferrous metallurgy—from 5.6 per cent to 13.1 per cent—was due to an upsurge in copper ore and electrolytic copper production, the latter reaching a volume of 54.7 thousand tons, i.e. 25 per cent greater than in 1968. Output of lead, zinc and aluminium rose at a modest and less than planned rate, and supplies were reported to be inadequate.[56]

The engineering and metal working industry continued to expand production at a very fast pace, the 13.5 per cent rate being somewhat higher than planned. Final deliveries rose less than production, however, and apparently less than planned. Deliveries for export increased by 13 per cent instead of the planned 19 per cent, and consumer deliveries 7.1 per cent—barely in line with the 7.3 per cent target. Production was also considerably expanded of automatic equipment (36 per cent), electric generators and motors (21 per cent), diesel locomotives (24 per cent), tractors (26 per cent) and passenger-cars (24 per cent). In the domestic appliance group, relatively high increases were reported for radios (13 per cent) and

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[50] It must be added, however, that the increase in employment envisaged in the plan (3.3 per cent) was above the longer-term target of 2.5 per cent.

[51] See *Zycie Gospodarcze*, No. 2, 1970, p. 12.

[52] See *Zycie Gospodarcze*, No. 6, 1970, p. 2.

[53] It has been pointed out, for instance, that in 1969 about 7 per cent of the output of the enterprise under the ministry of heavy industry qualified under the term " new products ", which was less than in the preceding year. In enterprises under the ministry of chemical industry, the corresponding figure was 2.3 per cent.

[54] This can be seen from the following figures, also showing the extent of plan fulfilment (preceding year = 100):

	1968	*1969*	
		actual	*planned*
Hard coal	103.8	105.0	103.1
Brown coal	112.4	114.8	107.6
Crude oil	105.5	92.4	110.0
Natural gas	162.8	153.2	154.2
Oil processing	139.6	119.8	119.9

[55] In 1968, output of crude steel rose 5.3 per cent and of rolled products 5.5 per cent. No data are available on changes in the output of quality steels for that year, but an improvement in the structure of output is indicated from a comparison of the figures pertaining to values with those relating to quantities.

[56] Plans and output of major non-ferrous metals were as follows (preceding year = 100):

	1968	*1969*	
		actual	*planned*
Copper ore	121 7	181 9[a]	. .
Electrolytic copper	103.4	125.5	125.3
Refined lead	108.7	104.1	115.3
Zinc	103.3	102.5	110.4
Aluminium	101.2	103.1	105.9

[a] Pure content.

vacuum cleaners (25 per cent). Output of television sets rose 7.3 per cent, refrigerators 4.1 per cent and domestic washing machines 2.8 per cent, all of these figures being significantly lower than the corresponding increases in 1968, when output rose by 13.1 per cent, 13.8 and 8.5 per cent respectively. With total output of the chemical industry up by 12.4 per cent, deliveries to the consumer market rose 13.2 per cent, apparently a faster rate than in 1968. Production of sulphur expanded 48 per cent, permitting a further sharp expansion of exports[57] and significant increases were reported in a number of other basic products, although some of them less than planned.[58] Notwithstanding the significant increase in production (7.2 per cent), the building materials industry did not reach its delivery targets in a number of important products—mainly owing to transportation difficulties—causing delays in construction.

The performance of the light industries was influenced on the one hand by a slow-down in raw materials imports, those of cotton, wool and leather actually declining, and on the other, by a rising supply of man-made fibres (the share of which in the total is now about 48 per cent) and other industrial materials. In the food industry, the low level of agricultural supplies was the determining factor. Output of refined sugar (a decline of 10.8 per cent) and butter (a fall of 4.9 per cent) was particularly affected. Output of industrial meat, after decreasing slightly in 1968, advanced 5.1 per cent in 1969.

The intensification of strains[59] led to a reduction of the industrial target to a 7.3 per cent growth rate in the current year. The growth of labour productivity is to be maintained, however, at the previous levels, the full impact falling on a slow-down in the expansion of employment. The plan calls for a concerted effort to reduce the material and import intensity of production, and strict measures are to be taken to curtail production of articles for which demand is inadequate. The slower growth of a number of processing industries and sections should help to ease the strain on material supplies, thus making it possible to achieve a better over-all harmonization of supplies with requirements.

Industrial production in *Romania* rose by 10.7 per cent in 1969, growth being strongly influenced on the positive side by the high rate of industrial completions in the past two years, and on the negative side by a low level of agricultural supplies and imports. The growth of industrial labour productivity continued to slacken, partly reflecting the slower expansion of output. In employment, however, the trend towards acceleration—in evidence since 1966—persisted, further lowering the proportion of output growth which may be accounted for by rising productivity.

The producer-goods sector expanded production by 11 per cent on top of the exceptionally high increment (14.9 per cent) attained in 1968, while the consumer-goods sector increased production by 10 per cent (7.1 per cent in 1968). Data available for branches for nine months only indicate that the slow-down in the producer-goods sector reflected a rather sharp deceleration in non-ferrous metallurgy and the building materials industries, and a smaller decline for fuel and metal-processing industries. In the consumer-goods sector, the improvement was the result of a faster expansion of output of consumer durables. The growth of light industrial output has apparently accelerated somewhat, whereas that of the food-processing industry underwent a further sharp decline.

Output of electricity rose 13.2 per cent, about the same rate as in 1968, the growth of capacity having accelerated from 8 per cent to 14 per cent. In the fuel industry, the pattern of expansion of the various sections remained largely unchanged. Output of coal continued to rise at a fast rate—a steady 13 per cent. The expansion of natural gas output was speeded up—from 6.0 per cent to 9.8 per cent—whereas output of crude oil, still accounting for the bulk of fuel supplies, remained unchanged. Further impressive gains were registered in the output of pig-iron (16 per cent), steel (17 per cent), rolled products (13 per cent) and aluminium (18 per cent); this was partly made possible by bringing newly-constructed large-scale capacities into operation.[60] In the engineering and metal-working industry, the fastest growth was achieved by the means of automation and transport sections. Output of automatic and semi-automatic equipment rose 48 per cent (in terms of value) and output of passenger-cars, first started in 1968, rose 150 per cent (from 7.8 thousand to 19.1 thousand units). A significant increase was also attained in the output of television sets (38 per cent). Although the chemicals industry continued to expand its over-all output at an extremely fast pace, rather modest and below plan increments were attained in the production of plastics and resins (5.8 per cent) and synthetic fibres (5.5 per cent). Output of chemical fertilizers rose by a fifth, an impressive figure but still below target (42.5 per cent). In the timber and wood-working industry, some

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[57] In 1968 production rose 82 per cent and exports 140 per cent, the latter attaining the level of 957 thousand tons.

[58] The performance of the chemical industry is characterized by the following output figures (preceding year = 100):

	1968	*1969*	
		Actual	*Planned*
Sulphur	182.3	147.6	139.7
Sulphuric acid	108.4	115.3	124.9
Soda ash	101.6	100.6	111.0
Nitrogen fertilizers	127.8	123.6	135.1
Phosphoric fertilizers	124.7	112.5	120.3
Plastics and resins	124.7	120.7	120.2
Chemicals and synthetic fibres	106.6	105.2	105.7
of which: synthetic	123.4	112.5	113.9
Synthetic rubber	101.8	117.9	118.5
Pharmaceuticals	113.7	112.5	. .

[59] The need to improve the convertible currency payments balance was given as one of the major reasons for the scaling down of the industrial target in 1970. Imports of machinery from western markets had to be reduced 36 per cent and a decision was taken to raise the export of coal, metals and timber steeply, as well as of some products which, because of their high production cost, were hitherto not included in the list of exportable items. (In the case of western markets these are goods the cost of which, per one realized US dollar, exceeds 70 zlotys.) See *Wies Wspolczesna*, No. 2, 1970, p. 32.

[60] In 1969, a blast furnace of 1,700 m³ and an oxygen converter of 1,250 thousand tons production capacity became operational at the Galati Works, raising the annual production capacity to 2.5 million tons of steel. The Hunedoaza iron and steel combine was also expanded by the addition of 900 thousand tons of rolling mill capacity.

sections accelerated their rate of expansion (particle board and fibre board from 9.9 per cent to 11.6 per cent, and furniture from 14.2 per cent to 15.5 per cent). In light industry, growth rates that were better than average and higher than in the preceding year were achieved by the knitted goods (16.7 per cent) and in the ready-made clothing (12.7 per cent) sections. Output of woven fabrics rose 9.3 per cent and of shoes 2.2 per cent. The slow-down in the food-processing industry was mainly due to a decline in meat output by 2.9 per cent. Substantial increases were recorded in the output of meat products (13 per cent), sugar (12 per cent) and canned vegetables and fruit (20 per cent).

The Romanian plan for 1970 provides for a sustained high rate of industrial development. An 11.3 per cent increase of global production is envisaged, 11.8 per cent for producer goods and 10.2 per cent for consumer goods. Labour productivity is expected to rise 8.8 per cent, implying a planned employment increase of only 2.3 per cent. Particular attention is to be paid to a wider and more efficient utilization of the raw materials base. Output of the extraction industries is scheduled to increase by 12.8 per cent, primarily through increased production of coal and copper, lead and zinc ores. Significant expansion is expected in the output of metals: pig-iron by about 21 per cent, steel by 18 per cent and rolled products by 19 per cent. The chemical industry is expected to remain the most dynamic branch, with an output increase of 21 per cent, output of fertilizers being scheduled to rise 32 per cent, plastics and resins 63 per cent and synthetic fibres 27 per cent. In the engineering and metal-working industry output of which is planned to rise by 14 per cent, particular attention is to be paid to the development of complex machine tools, products of precision mechanics and electro-technical industry, and diversification of the production of construction equipment and agricultural machinery. The first electronic computers based on semi-conductors and a new advanced type of drilling rig will be produced, and a rather steep advance in the output of passenger-cars and television sets is scheduled. Output of light industry is expected to increase 10 per cent, measures being taken to broaden the range of goods produced. The food industry is expected to raise production by some 9 per cent with significant increases being envisaged for meat and meat products, sugar, canned vegetables and fruit.

3. AGRICULTURE

(i) General situation and topical problems

Throughout 1969 the farm sector in practically the whole of the east European region was adversely affected by unfavourable weather conditions. Reports from all countries, except Hungary, call attention to the adversities encountered at various stages of the farm operations: winter-sowings and perennial plantations destroyed by hard frosts; spring-sowings delayed by cold and rainfall; vegetation periods shortened by summer drought; and harvesting rendered difficult by excessive rainfall.

The climatic impact on the over-all outcome is to a certain extent reflected in the changes in the volume of global output in relation to the preceding year (see table 6), which range from a decline by 6 per cent in eastern Germany [61] to an increase by 5-6 per cent in Hungary. Although yearly fluctuations may have a decisive influence on the short-term development of the economy as a whole in countries where the contribution of the farm sector to national income is still of major importance, such fluctuations are a poor measure of the general performances in agriculture. The progress achieved by the countries of the region in recent years appears more clearly in the compound growth rates obtained from a comparison of consecutive five-year levels in the period 1955-1969. On the whole, the final results of the year under review demonstrate that as a result of gradual improvement in agro-techniques and farm management, agriculture in eastern Europe has become more resistant to adverse weather conditions.

Total production of cereals in the region was some 7-8 million tons lower than in 1968, as a result of sizeable losses in eastern Germany and the Soviet Union; all other countries maintained or slightly increased the levels of the preceding year and Hungary had a balance of 700 thousand tons for exports. Prolonged summer drought inflicted damage to sugar-beet, potatoes and oil-seed crops in most countries; fodder crops and natural pastures also suffered. In Hungary, an excellent harvest was reported in the fruit and vegetable sector, which also contributed substantially to global output results in Bulgaria and Romania, where extensive irrigation is beginning to play a decisive role.

Practically all countries experienced difficulties in the livestock sector during the year under review. In a few cases a very modest progress was recorded, in others none; for the second consecutive year, global losses were considerable in Bulgaria. Productivity levels generally continued to improve, but they cannot for long compensate for stagnating or slightly declining livestock numbers and at the same time ensure an upward trend in animal output. The effect of developments in 1969 will be felt in the current year, when slaughterings will have to be reduced in many instances in order to maintain and possibly expand the basic stock. The situation is most serious in cattle breeding. With adequate feed supplies the pig populations, with shorter reproduction cycles, are more rapidly restored; and industrial poultry breeding, which is developing rapidly everywhere, may also help to reduce eventual shortages.

Whatever the actual development in 1969, it appears that the potentialities of farm production in the Soviet Union and the east European countries are gradually expanding. Technical progress in any economic sector depends on improving the quality of the basic factors of production: in agriculture, first and foremost soil improvement. The important melioration works which have been carried out in the recent past are currently being expanded and are already exercising a noticeable influence on output developments. In a longer-term perspective, the planned extension of the irrigation nets, for instance, can be expected to lead to regional self-sufficiency in many presently imported food products and agricultural raw materials.[62]

Crop yields are being further improved by large-scale application of selected seed varieties and rapidly rising supplies of chemical fertilizers—in Poland and Czechoslovakia, increases of as much as 17 and 19 per cent were reported in 1969. The mechanization of farm operations is proceeding but, as in the case of fertilizers, developments are to a certain extent hampered by the inability of the industrial sector to provide quantities, qualities and assortment of machinery corresponding to the effective demand of the farms. In all the countries of the region, attention is now being turned to rapid and comprehensive mechanization in the livestock breeding sector, where labour and cost-saving devices are required for further progress.

The long-term policy of encouraging specialization and concentration of production is being actively pursued. Cultivation of the various basic crops is gradually being

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[61] Information submitted directly to the secretariat. In eastern Germany, the concept of global output in agriculture is utilized only in plan documents. (In recent years the growth target has normally been around 2-3 per cent.) Plan fulfilment is not officially recorded in such terms and time series cannot therefore be established.

[62] According to existing plans, the total irrigated area of the region should amount to 40 million hectares in 1980. Cotton and rice are two important products for which regional self-sufficiency will be attained. See *Voprosi ekonomiki*, No. 2, 1969, pp. 115-119.

TABLE 6

Global agricultural output

Country	*1955-1959 to 1960-1964*	*1960-1964 to 1965-1969*	*1964*	*1965*	*1966*	*1967*	*1968*	*1969*	*1970 Plan*
	Average compound rates		*Annual percentage changes*						
Albania									
Total	. .	. .	1.6	–4.0	12.5	12	2.5	ca. 10	17
Crop output . .	. .	. .	7.8	–6.8	. .	. .	. .	. .	. .
Animal output .	. .	. .	6.3	–5.4	. .	. .	. .	. .	. .
Bulgaria									
Total	5.3	4.7	11.4	1.8	14.3	3.5	–8.7	2.4	12*
Crop output . .	5.4	4.6	10.3	–1.5	19.0	1.8	–15.4	ca. 6.4	. .
Animal outpout	5.1	5.0	13.7	8.3	5.8	6.9	–3.1	–4.7	. .
Czechoslovakia									
Total	0.9	2.5	3.0	–5.4	11.1	5.5	5.6	0.9	0.6
Crop output . .	0.2	1.7	1.2	–14.4	21.4	5.3	6.3	1.1	. .
Animal output .	1.5	3.2	7.3	3.2	3.0	5.8	5.0	0.8	. .
Hungary									
Total	1.4	2.7	6	–5	8	4	1	5–6	1
Crop output . .	0.8	2.7	3	–6	12	4	–1	ca. 10	—
Animal output .	2.7	2.7	10	–4	4	5	5	–(1-2)	2-3
Poland									
Total	2.8	3.2	1.3	7.7	5.4	2.5	4.5	–4.7	3
Crop output . .	2.9	3.7	0.5	8.4	5.5	3.9	5.4	–8	4
Animal output .	2.7	2.4	2.3	6.6	5.4	0.3	2.9	0.5	1
Romania									
Total	2.5	2.5	6.3	6.7	14.0	1.8	–3.7	4.8	16
Crop output . .	. .	. .	3.3	6.4	16.5	–1.9	–3.9	. .	. .
Animal output .	. .	. .	14.7	4.5	12.3	7.7	–3.0	. .	. .
Soviet Union									
Total	3.0	3.5	14.6	1.8	8.9	1.6	3.2	–3.2	8.5
Crop output . .	2.8	. .	29.0	–8.3	12.7	0.1	4.8	. .	. .
Animal output .	3.2	. .	–1.6	17.0	3.4	3.3	1.6	. .	. .

Sources: Statistical yearbooks, plans and plan-fulfilment reports.

shifted to areas where soil and climatic conditions are most suitable and large-scale production units are being organized; the time may not be far off, for instance, when the bulk of the vegetable crop in Bulgaria will be produced by some 120-150 specialized enterprises. Such changes naturally take time to produce results. Moreover, disturbances are likely to occur in the conversion period. It is typical that, in the livestock sector, the transfer of production from small farms and individual holdings to large-scale specialized units, which is under way in all the countries of the region, is creating some imbalances: output is declining more rapidly in the small holdings than it is increasing in the large ones. In the year under review, these tendencies were particularly noticeable in the Soviet Union and in Hungary. Concentration and specialization are also of great importance for the rational utilization of the scarce resources of skilled labour in the agricultural sector; while the qualification levels of young recruits are improving, they cannot completely offset the deteriorating age and sex structure of the bulk of available farm labour.

At present, problems are still encountered in meeting the growing demand—for a number of products, such as meat—generated by population growth, urbanization and rising consumer incomes. However, this also reflects shortcomings in the organization of transport, storage, processing and marketing of agricultural products. In this context, the recent establishment of the so-called Agri-Food complexes—with integrated planning and management of the branches involved—is an important step, especially in view of future potentialities.

In several countries the further increases in production expected in the coming decade will accentuate the problem of outlets. With rising incomes, demand for a number of products will continue to increase in east European countries. Possibilities also exists for larger exports to western Europe of several products but, on the whole, these will be limited in the absence of any significant change in agricultural policies pursued by west European industrialized countries. In the interests of over-all efficiency, agricultural planning will increasingly have to be guided by estimates of domestic and foreign demand, as well as of production possibilities.

(ii) Developments in individual countries

In the period 1964 to 1968, global agricultural output in the *Soviet Union* increased at an average rate of nearly 6 per cent.[63] Measured against such a performance, the 3.2 per cent decline in 1969 can hardly be considered a serious set-back. Moreover, in terms of climatic adversities 1969 had much in common with 1963. In most of the climatic zones of the Soviet territory, normal sowing, vegetation and harvesting patterns were upset in some way or another: heavy frosts destroyed 20 per cent of the winter-sown crops; excessively low temperatures caused damage to cotton and fruit plantations in southern areas; dust storms swept over wide regions exposed to erosion; drought conditions shortened the vegetation period in some areas while rain and cold delayed it in others; and autumn frosts set in early in Siberia and Kazakhstan. The final results of the agricultural sector in 1969 confirm, therefore, the progress in agro-techniques and farm management achieved in recent years. Nevertheless, agriculture still remains the major problem sector of the Soviet economy.

Total grain production amounted to 160.5 million tons, or 5 per cent less than in 1968, on the basis of a slightly larger area (by 1 million hectares) and average yields of 13.1 quintals (see table 7). In spite of difficulties the cereals harvest in the Ukraine, which had suffered heavily in the preceding year, improved by 31 per cent to reach an all-time high of 36.5 million tons. Another record was set by Byelorussia with a level of 4.4 million tons, representing an increase of 47 per cent. The share of wheat in the all-Union total is likely to have declined as a result of the higher proportion of spring-sown varieties which normally yield less than the winter-sown crops. A particular feature in 1969 was the rapid increase (by 25 per cent) in production of maize for mature grain; this was entirely due

TABLE 7

Areas and yields of selected crops in the Soviet Union

(Millions of hectares and quintals per hectare)

Crop	*1966*		*1967*		*1968*		*1969*	
	Area	*Yields*	*Area*	*Yields*	*Area*	*Yields*	*Area*	*Yields*
All crops	206.8	..	206.9	..	207.0	..	208.0	..
All grains	124.8	13.7	122.2	12.1	121.5	14.0	122.6	13.1
of which:								
Wheat								
Total	70.0	14.4	67.0	11.9	67.2	..	66.9	..
Winter	19.8	20.4	19.7	17.8	19.0	18.3	14.6	..
Summer	50.2	12.0	47.3	8.9	48.2	12.2	52.3	..
Winter rye	13.6	9.7	12.4	10.5	12.2	11.5	9.3	..
Maize (in dry grain)	3.2	26.0	3.5	26.2	3.4	26.2	5.2	ca. 22
Barley	17.9	15.6	17.8	13.9	17.8	14.8	..	..
Oats	7.2	12.8	8.7	13.3	9.0	12.9	9.6	..
Millet	3.3	9.5	3.8	8.4	3.0	8.7	3.6	..
Buckwheat	1.9	5.0	1.7	6.8	1.7	8.6	..	..
Rice	0.2	28.7	0.3	31.8	0.3	34.1	0.3	ca. 34
Pulses	5.9	11.8	5.5	11.9	5.1	14.2	..	..
Technical crops	15.1	—	14.8	—	14.6	—	14.5	—
of which:								
Cotton	2.46	24.3	2.44	24.5	2.45	24.3	2.54	22.5
Sugar-beet	3.80	195	3.80	230	3.56	266	3.46	205
Sun flower seed	5.00	12.2	4.77	13.8	4.86	13.7	4.81	13.1
Flax	1.40	3.3	1.38	3.5	1.33	3.0	1.31	..
Potatoes	8.4	105	8.3	115	8.3	123	8.1	113
Vegetables	1.4	125	1.4	141	1.4	131	..	..
Fodder plants	56.6	..	59.6	..	60.7	..	57.7	..
of which:								
Grassland (annual)	16.9	14.1	18.7	13.4	18.0	13.9	..	..
Grassland (perennial	15.1	17.8	16.5	16.4	19.0	177	..	..
Maize (silage and green fodder)	19.9	108	19.6	114	19.0	104	..	..
Fallow land	16.8	..	17.7	..	18.2	..	..	..

Sources: Statistical yearbooks, plans and plan-fulfilment reports.

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[63] In 1963, as a result of extreme weather conditions, a decline of global output by as much as 7.5 per cent had been experienced.

TABLE 8

Production (A) and State procurements (B) of selected agricultural products in the Soviet Union

(Millions of tons)

Product	*1966*		*1967*		*1968*		*1969*	*1970*
	A	*B*	*A*	*B*	*A*	*B*	*A*	*A*
Cereals	171.2	75.0	147.9	57.2	169.5	69.0	160.5	174.5
of which: Wheat	100.5	56.8	77.4	38.2	93.4	49.0	..	..
Sugar-beet	74.0	69.7	87.1	81.6	94.3	84.2	ca. 71	..
Cotton	6.0	6.0	6.0	6.0	6.0	6.0	5.7	6.2
Sunflower seed	6.2	4.7	6.6	4.9	6.7	4.9	6.3	..
Potatoes	87.9	9.3	95.5	11.7	102.2	11.5	91.5	..
Meat								
live weight	..	10.3	..	11.5	..	11.9	..	..
carcass weight	10.7	6.5	11.5	7.2	11.6	7.4	11.6	12.1
Milk	76.0	40.1 [a]	79.9	42.5 [a]	82.3	44.0 [a]	81.6	83.5
Eggs *(millions)*	31.7	11.6	33.9	12.9	35.7	14.1	37.0	38.6
Wool	0.37	0.38	0.40	0.41	0.41	0.43	0.39	..

Sources: Statistical yearbooks, plans and plan-fulfilment reports.

[a] Milk and milk products.

TABLE 9

Livestock numbers in the Soviet Union

(Millions of heads at the end-year census and percentage change over preceding year)

	1996	*1967*	*1968*	*1969*	*1966*	*1967*	*1968*	*1969*
	Numbers				*Percentage change*			
Total (in terms of cattle units) [a]	100.8	99.9	98.6	..	3.2	–0.9	–1.3	..
Cattle	97.1	97.2	95.7	95.0	4.0	0.1	–1.5	–0.3
of which: Cows	41.2	41.6	41.2	40.6	2.7	1.0	–1.0	–1.5
Pigs	58.0	50.9	49.0	56.1	–2.7	–12.2	–3.5	14.5
Sheep and goats	141.0	144.0	146.1	136.3	4.2	2.1	1.5	–6.7
In State and collective farms								
Cattle	67.8	68.7	68.4	70.1	3.4	1.3	–0.4	2.5
of which: Cows	24.1	24.5	24.4	24.6	2.6	1.7	—	0.4
Pigs	41.5	37.3	36.3	42.0	0.2	–10.1	–2.7	16.0
Sheep and goats	107.7	110.4	111.8	104.1	4.5	2.5	1.3	–6.9
In private ownership								
Cattle	29.3	28.4	27.3	24.9	5.0	–3.1	–3.9	–9.8
of which: Cows	17.1	17.1	16.7	16.0	3.0	0.0	–2.3	–4.2
Pigs	16.5	13.6	12.8	14.1	–9.3	–17.6	–5.9	10.2
Sheep and goats	33.3	33.6	34.4	34.3	3.4	0.9	2.4	—

Sources: Statistical Yearbooks, plans and plan-fulfilment reports.

[a] *Vestnik statistiki*, No. 12, 1969, p. 91.

to an expansion of areas from 3.4 to 5.2 million hectares.[64] The output of rice, which until recently has a very modest place in the Soviet crop pattern, continued to grow (by 4 per cent in 1969) and totalled 1.1 million tons.[65]

As regards other important crops, lower per hectare yields were the main reason for the decline in output. The sugar-beet harvest, which in 1968 had reached a level exceeding the long-term target, fell by 25 per cent; higher sugar content will partly compensate for the loss in gross weight. The crops of cotton and sunflower seed were smaller than in the preceding year, by 4 and 6 per cent respectively. Production of potatoes declined by 10 per cent (see table 8).

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[64] In recent years, the interest of the farms in maize cultivation had been slackening—even in regions well suited to this crop—as a consequence of the disavowed " campaign policy " prior to 1964; between 1964 and 1965, areas fell from 5.1 to 3.2 million hectares.

[65] Considerable investment resources are at present being allocated for the expansion of rice cultivation. Domestic production is expected to cover home-market requirements at a level of 1.5 million tons in the current year. According to existing plans, the output of rice in the Soviet Union will reach more than 3 million tons in the mid-1970s, which would enable it to satisfy demand in the whole CMEA area. See *Voprosi ekonomiki*, No. 2, 1966, p. 118.

Global output of the livestock sector was unchanged: meat production remained at the level of the preceding year, whereas that of milk declined slightly; egg production improved by 4 per cent. The fall by some 6 per cent in wool output is explained by the heavy losses incurred by the sheep herds on the frost-bitten natural pasture-lands in the south-eastern territories.

Since 1966, total livestock (in terms of cattle units) has declined slightly; improving productivity has hitherto had a compensatory effect and even permitted some progress in output, but further expansion of numbers would seem to be required in order to fulfil the planned targets in future. The data in table 9 referring to end-year livestock censuses suggest that over-all developments are heavily influenced by the rapidly diminishing importance of privately owned livestock. This is linked to the improvement of rural living standards, the gradual disappearance of payments in kind in the collective farms and new behavioural patterns of the young farm generation. Official policy measures are intended to promote the gradual transfer of livestock production to large-scale, fully mechanized enterprises.[66] However, the process is not sufficiently rapid to keep pace with the movements out of the household sector, while the price incentives are too weak, in spite of the 1965 adjustments, to induce less well-equipped farms to make decisive efforts in livestock breeding.

Supplies of current inputs from outside the sector continued to improve in 1969 (see table 10). The plan target for deliveries of chemical fertilizers was slightly exceeded by some 7 per cent. With increasing availabilities it will no longer be necessary to limit the application of fertilizers to technical crops and those grown on irrigated land; cereals are already beginning to benefit and the excellent 1969 results in the Ukraine, for instance, are largely attributed to ample supplies of fertilizers. A significant impact can be expected in 1970, when deliveries are planned to increase by 20 per cent.

The total volume of investments in the agricultural sector rose by 6 per cent in 1969 (see table 11). As in recent years, the increase in capital outlays for irrigation, drainage and other melioration works appears to have

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[66] In 1968, the share of large-scale specialized enterprises in the total output of eggs, for instance, amounted to 40 per cent. See *Ekonomicheskaya nauka i khozystvennaya praktika 1968*, p. 37.

TABLE 10

Current agricultural inputs in the Soviet Union

	1966	*1967*	*1968*	*1969*	*1970*
A. Stock and deliveries of agricultural machinery *(in thousands)*					
Stock:					
Tractors *(in physical units)*	1 660	1 739	1 821	..	..
Tractors *(in 15 hp units)*	3 233	3 485	3 776	..	..
Grain combines	531	553	581	..	..
Motor-trucks	1 017	1 054	1 097	..	..
Deliveries:					
Tractors *(in physical units)*	276	287	290	303	312
Tractors *(in 15 hp units)*	583	624	644	..	..
Grain combines	86	96	98	92	..
Motor-trucks	106	108	114	154	156.5
B. Fertilizer supplies to agriculture					
Total *(gross weight in millions of tons)*	30.5	33.7	36.3	38.8	46.0
Total *(in pure nutrient value)*	6.99	7.75	8.31	..	..
In kilograms per hectare	31.8	35.1	37.7	..	..
of which:					
nitrogenous	12.1	14.0	15.7	..	..
phosphatic	7.6	7.7	8.0	..	..
phosphorous	3.5	3.7	4.0	..	..
potash	8.6	9.7	10.0	..	..
C. Supplies of electric energy *(in billions of kWh)*					
Total to agriculture	23.2	25.8	29.3	33.4	..
As percentage of national total	4.3	4.4	4.6	4.8	..

Sources: Statistical yearbooks, plans and plan-fulfilment reports, and direct communication from the Soviet Government.

been particularly rapid. Within the category of machinery and installations, special attention was given to equipment for the mechanization of livestock breeding farms. Deliveries of tractors increased by 4.5 per cent and motor trucks by as much as 35 per cent. Nevertheless, complaints have been made that deficient supplies do not permit a normal renewal of machinery stocks, resulting in expensive maintenance and repairs and a low degree of capacity utilization.[67] In 1969, decisions were taken on an accelerated output programme for the agricultural engineering industry; measures were also adopted for the setting up of special technical service and repair stations under the authority of the " Sel'khozteknika ".[68]

Efficient utilization of machinery, equipment, mineral fertilizers and other technical supplies to agriculture is increasingly being hampered by the shortage of qualified manpower on the farms. Out of 27.5 million actively employed persons in the socialized sector in 1968, only 671 thousand or about 2 per cent had university or secondary education. At 3.4 million, the total number of tractor drivers and mechanics corresponded to only one person per available tractor, combine and motor-truck of the entire stock.[69]

In 1969, the economic reorganization of the State farm sector, which was initiated in 1967 and involves the transfer of the enterprises to fully independent economic accounting, became operative in 3,800 units, or 30 per cent of the total. The State farm sector, as a whole, closed the year with a profit.

In November 1969, the third national congress of collective farmers finally adopted new statutes for the collective farms; the regulations, which had remained unchanged since 1935, were brought into line with prevailing practices.[70]

Amongst the east European countries,[71] *eastern Germany* was one of the worst hit by the extreme weather conditions of 1969. After a series of rather successful years, global output declined by 6 per cent. Total production of cereals amounted to 6.9 million tons, a satisfactory level in comparison with any year before 1967; but measured against the bumper harvest of 1968 it

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[67] For a detailed discussion of problems connected with the present state of technical supplies to agriculture, see *Voprosi ekonomiki*, No. 12, 1969, pp. 60-70.

[68] See *Izvestia*, 24 January 1969.

[69] See *Narodnoe khozyaistvo SSSR v 1968 godu*, pp. 448 and 454.

[70] See, for instance, SURVEY for 1967, chapter II, pp. 24-25 and 43; and SURVEY for 1968, chapter II, pp. 139-140.

[71] For basic statistical data, referring to corps, livestock and technical supplies, see tables 12, 13 and 14.

TABLE 11

Agricultural investments in the Soviet Union

(Millions of roubles at constant prices)

	1966	*1967*	*1968*	*1969*
Total	11 378	12 569	14 008	ca. 14 850 [a]
of which:				
State investments	6 490	6 993	7 800	..
Collective farm investments	4 888	5 576	6 208	..
Total productive investments	9 521	10 197	11 435	..
of which:				
Construction	6 179	6 616	7 435	..
of which:				
Livestock premises	1 928	1 767	1 924	..
Water supply facilities, irrigation, etc.	1 458	1 661	2 060	2 520 [b]
Electrification	496	541	600	..
Establishment of orchards and vineyards	321	349	370	..
Machinery and equipment	3 342	3 581	4 000	..
		Percentage distribution		
Construction	54.3	52.6	53.7	..
of which:				
Livestock premises	16.9	14.1	13.7	..
Water supply facilities, irrigation, etc.	12.8	13.2	14.7	..
Electrification	4.4	4.3	4.3	..
Establishment of orchards and vineyards	2.8	2.8	2.6	..
Machinery and equipment	29.4	28.5	28.6	..

Sources: Statistical yearbooks, plans and plan-fulfilment reports.

[a] At current prices 16,700 million roubles.

[b] Probably at current prices; if price relationships are the same as for the total, the figure would represent an increase by some 10 per cent over the 1968 level

represented a 12 per cent reduction. Output of oilseeds, potatoes and sugar-beet is reported to have been some 30 per cent below the average of the preceding five-year period. Fruit and vegetable yields were poor and fodder supplies were severely curtailed. In spite of fairly well-organized irrigation facilities, the capacity of the water supply services was not sufficient to combat the effects of the drought.

TABLE 12

Production and yields of some basic crops in east European countries

(Output in millions of tons and yields in quintals per hectare)

Country and crop	*Production*				*Yields*			
	1966	*1967*	*1968*	*1969*	*1966*	*1967*	*1968*	*1969*
Bulgaria								
Wheat	3.19	3.25	2.55	2.54	27.9	30.5	24.0	24.5
Barley	1.06	0.99	0.81	0.92	25.5	25.4	20.0	22.1
Maize	2.21	1.97	1.77	2.42	38.1	34.3	31.3	40.7
Potatoes	0.42	0.38	0.37	0.34	113	106	114	108.2
Sugar-beet	2.53	2.03	1.41	2.81	404	342	265	338.5
Sunflower seed	0.42	0.48	0.46	0.52	16.6	17.8	16.3	17.9
Czechoslovakia								
Wheat	2.25	2.52	3.16	3.28	25.3	27.1	31.6	31.1
Rye	0.79	0.69	0.77	0.67	20.0	21.6	22.8	24.5
Barley	1.61	1.94	2.12	2.49	23.4	27.3	29.8	31.9
Oats	0.75	0.95	0.88	0.97	19.2	22.3	21.4	24.2
Maize	0.48	0.42	0.47	0.48	32.7	30.3	33.8	37.8
Potatoes	5.85	6.04	6.53	5.02	134	148	176	154
Sugar-beet	7.76	7.66	7.84	6.16	341	376	418	337
Eastern Germany								
Cereals	5.92	7.35	7.83	6.90	26.1	31.8	33.4	..
of which:								
Wheat	1.52	2.01	2.38		31.4	37.8	41.7	..
Rye	1.64	1.99	1.94	..	21.3	26.6	26.3	..
Barley	1.53	1.93	2.12	..	29.3	34.9	35.6	..
Potatoes	12.82	14.07	12.64	..	185	205	188	..
Sugar-beet	6.61	6.95	7.00	..	314	333	344	..
Hungary								
Wheat	2.19	2.72	3.35	3.55	21.7	25.9	25.2	27.1
Rye	0.24	0.23	0.24	..	11.0	11.0	12.5	12.9
Barley	0.92	0.93	0.90	0.90	18.7	20.9	23.4	..
Maize	3.91	3.52	3.76	4.66	31.6	28.5	29.9	34.1
Potatoes	2.43	1.51	1.34	1.61	122.8	89.4	89.2	115.0
Sugar-beet	3.57	1.36	3.47	3.26	331	324	334	356
Sunflower seed	0.10	0.08	0.09	..	10.8	9.6	12.0	..
Poland								
Cereals	15.9	16.5	18.2		18.8	19.4	21.2	21.6
of which:								
Wheat	3.60	3.93	4.67	18.55	21.5	22.4	24.8	21.6
Rye	7.70	7.69	8.52		17.8	17.9	19.8	
Barley	1.41	1.41	1.49		20.6	21.6	23.6	
Oats	2.63	2.82	2.89		18.8	19.7	20.7	
Potatoes	46.14	48.62	50.82	44.85	169	176	185	165
Sugar-beet	13.62	15.52	14.80	12.12	313	358	357	296
Rape seed	0.48	0.68	0.74	0.24	15.5	19.7	19.0	13.2
Romania								
Cereals	13.90	13.5	12.8	12.8	20.4	20.5	19.2	..
of which:								
Wheat	5.06	5.82	4.85	4.40	16.7	20.0	17.2	..
Maize	8.02	6.86	7.11	7.68	24.4	21.3	21.3	..
Potatoes	3.35	3.10	3.71	2.23	108	98	116	..
Sugar-beet	4.37	3.83	3.94	3.80	225	218	213	..
Sunflower seed	0.67	0.72	0.73	0.75	14.4	15.0	14.0	..

Sources: Statistical yearbooks, plans and plan-fulfilment reports.

On the whole, animal output seems to have been maintained at the 1968 level.[72] Livestock numbers have increased little in recent years, but increasing yields have permitted a steady progress in output. In 1969, the cattle herd expanded by 1 per cent, the number of cows remaining stable, whereas the pig population declined by 3 per cent.

Some improvement in material and technical supplies to agriculture appears to have taken place in 1969. Deliveries of tractors remained at about their 1968 level (11,065 units) while combines more than doubled (1,626 units). Total supplies of chemicals rose slightly, but complaints were made about significant delays in deliveries of nitrogenous fertilizers. As in the recent past, a substantial share (about 40 per cent) of agricultural investments in 1969 was channelled into melioration works; for the second consecutive year capital outlays for such purposes increased by some 30 per cent, the plan being overfulfilled. Large investment sums were also allocated to the building of plant for the industrial production of meat, poultry and eggs. In 1970, improvement of storage facilities, which proved to be particularly deficient in the year under review, will be another key objective.

Efforts to improve the qualification level of agricultural labour continued; the share of collective farm members with completed professional training is reported to have reached 46 per cent in 1969.

On the whole, the new organizational devices introduced in agriculture in the recent past seem to be functioning satisfactorily. In 1970, output of commodities and services in the Agri-Food complex is planned to increase by 5.5 per cent: 2.6 per cent in agriculture proper and 6.1 per cent in food processing.

The agricultural sector in *Poland* was equally hard hit by climatic adversities. Global output was 4.7 per cent below that in the preceding year, plant production declining by 8 per cent, while livestock output remained practically stable.

Under the impact of winter frost damage, some changes occurred in the structure of sowings: grain areas, and especially those of wheat and barley, increased at the expense of technical crops and fodder plants. As a result, total cereals production expanded by 3.4 per cent, average per hectare yields remaining at the 1968 level. Output of all other major crops was lower: potatoes by 11 per cent, sugar-beet by 24 per cent, and rape seed by as much as 70 per cent.

Animal output was maintained due to an increase in pig-meat by 4.2 per cent and in poultry meat by 4.3 per cent; there was practically no change in milk production. As a result of a fairly ample carry-over of supplies of potatoes and cereals, the June livestock census showed an expansion in the pig population by 3.2 per cent, but in December its level had fallen a few points below that of the corresponding month of the preceding year. In order to alleviate the strain on fodder resources at the farm level, the State had to step in with large-scale assistance programmes. Complaints were made at the official level, however, that farmers are slow to adapt to technical progress and continue to use outdated feeding methods, paying insufficient attention to silage and other modern means of feed preservation. In 1970, the Polish livestock sector will face a difficult task in maintaining present output levels, especially of beef and milk. It will be necessary to retain at least some 250,000-300,000 calves for breeding purposes in order to restore the cattle stock. Special production incentives were adopted recently: on 1 January 1970, new producer prices for slaughter pigs entered into force, together with regulations on land tax exemptions for deliveries of young slaughter cattle in excess of contract purchasing obligations.

A 17 per cent increase in supplies of chemical fertilizer to agriculture was recorded in 1969; per hectare application is now almost 135 kg. Great efforts would seem to be required, however, to teach small private farms to use these chemicals; according to a special survey in 1969, fertilizers are entirely neglected in more than 10 per cent of the peasant farms. Detailed soil maps for distribution to Polish villages are being prepared at present by specially established agencies. The implementation of the recent land consolidation scheme is being continued; it involved some 63 thousand hectares in 1969.

In *Czechoslovakia*, the volume of global agricultural output exceeded the 1968 level by about 1 per cent, which can be considered as a satisfactory result taking into account the rapid growth in recent years both in the crop and the livestock sectors, as well as the fact that climatic conditions were not particularly favourable. Adverse weather mainly affected the root and technical crops which, however, also reflect the further decline in areas under potatoes, sugar-beet and rape seed. Output of sugar-beet, for instance, on the smallest area ever recorded (325 thousand hectares) declined by some 24 per cent, but sugar content improved. Total production of cereals, on a somewhat larger area and with higher average yields than in the preceding year, expanded by more than 7 per cent. The 19 per cent increase in fertilizer supplies was an important contributory factor.

The small improvement in the animal sector was mainly due to increases in milk and egg output, by 4.6 and 4.3 per cent respectively. Beef and pig meat production declined rather sharply, but further progress was made in poultry meat, which reached a level of 130 thousand tons. Productivity levels generally continued to rise, but cattle herds and the pig population have been falling continuously in recent years and special measures would seem to be required to maintain the stock of animals. The overall fodder situation remained satisfactory in 1969 and feed shortages do not appear to be the main reason for the contraction. The problem is considered rather to be one of incentives and profitability and this raises the whole question of the agricultural price structure and policies in Czechoslovakia. It has been suggested that the present

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[72] The following information on State procurements, which normally cover more than 90 per cent of total meat and milk output, appears to confirm such an assumption:

	Index, 1969 over 1968
Meat (excluding poultry)	101.6
Poultry	113.5
Milk	100.6
Eggs	105.1

system of grants, additional payments, differentiated prices and direct financial support which, on the whole, reflect *ad hoc* solutions to various problems arising within as well as outside the agricultural sector, should be replaced by a new integrated approach. Changes in the agricultural tax system are also on the agenda of the reforms. Moreover, consideration will have to be given to measures for eliminating the existing imbalance between remuneration and productivity in agriculture as compared with other economic sectors.[73]

For the second consecutive year, weather conditions hindered the development of agriculture in *Bulgaria*. There was no possibility of reaching the 1967 record level of output, but total output was 2.4 per cent higher than in 1968, due to improvements in the crop sector. Animal output, affected by the poor harvest in 1968, declined further by nearly 5 per cent.

Total cereal production rose by some 15 per cent. The wheat crop remained at the level of the previous year, the results being entirely due to the excellent harvest of maize, which yielded more than 40 quintals per hectare; extensive irrigation and the large-scale introduction of selected hybrid strains are considered to explain this success. For much the same reasons, the sugar-beet and sunflower seed crops also improved. Heavy rains and hail-storms during the pollination period caused damage to the fruit plantations; vegetables suffered and the tobacco crop was partly affected by disease. The summer drought had particularly harmful effects on the fodder situation.

In the livestock sector, it proved impossible to prevent a decline in average productivity levels, in spite of State-organized additional deliveries of feed. Special measures

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[73] See " Structural trends and prospects in the European economy ", Part I of the present SURVEY, chapter 2, table 2.18.

TABLE 13

Livestock numbers and output of livestock products

(Numbers of livestock in thousands, output of meat and wool in thousands of tons, of milk in millions of litres, of eggs in millions)

	Numbers				*Output*			
Country and year	*Cattle*	*Cows*	*Pigs*	*Sheep*	*Meat*	*Milk*	*Eggs*	*Wool*
Bulgaria								
1966	1 385	578	2 276	9 998	490	1 456	1 490	26
1967	1 363	586	2 314	9 905	490	1 562	1 683	27
1968	1 297	579	2 140	9 652	534	1 540	1 627	29
1969	1 254	..	1 967	9 218	..	1 530	1 530	28
Czechoslovakia								
1966	4 462	1 952	5 305	670	1 123	4 404	3 080	2.2
1967	4 437	1 929	5 601	770	1 175	4 205	3 218	
1968	4 249	1 903	5 136		c.a. 1 222	4 417	3 270	
1969	4 222	1 884	5 037		..	4 621	3 411	
Eastern Germany								
1966	4 918	2 196	9 312	1 928	1 660	6 728	3 894	8.3
1967	5 019	2 188	9 524	1 818	1 731	6 904	3 995	8.3
1968	5 109	2 166	9 523+	1 794	1 798	7 227	4 046	8.3
1969	5 171	2 167	9 237	1 696				
Hungary								
1966	1 968	772	6 123	2 340	1 220	1 790	2 436	9.9
1967	2 049	785	6 647	2 300	1 211	1 918	2 714	10.1
1968	2 017	751	5 806	2 290	1 351	1 875	2 792	10.0
1969	1 925	..	5 400	..	..	1 870	2 600	..
Poland								
1966	10 390	6 014	14 251	3 164	2 625	13 807	6 253	8.0
1967	10 768	6 143	14 233	3 321	2 130	14 058	6 348	8.6
1968	10 940	6 194	13 911	3 328	2 160	14 202	6 315	8.8
1969	11 049		14 357	3 239		14 250	6 400	8.8
1970 plan	11 400		14 700	..	..	..	..	..
Romania								
1966	5 198	2 127	5 400	14 109	1 265	3 738	2 814	2.6
1967	5 332	2 218	5 752	14 380	1 356	4 123	3 011	2.9
1968	5 136	2 203	5 853	14 298	1 297	3 833	3 113	3.1
1969	5 034	2 496	5 971	13 836	..	..	..	..
1970 plan					1 396	4 248		3.2

Sources: Statistical yearbooks, plans and plan-fulfilment reports.

NOTE. — For livestock numbers, end-year census in all countries except Poland (mid-year census). Figures for meat are in terms of live weight in all countries except Bulgaria and Poland.

had to be introduced in the autumn to prevent excessive slaughterings, but livestock numbers at the end of the year still showed a decline for all major categories except cows. However, poultry breeding in large-scale industrialized enterprises is developing rapidly and the census recorded a 19 per cent increase in the total number of fowls.

The irrigated areas expanded by some 3.5 per cent in 1969. Deliveries of tractors to agriculture increased by more than 6 per cent. By contrast, supplies of fertilizers were considerably reduced; this development is partly explained by the fact that, in 1968, under the influence of the steep rise in agricultural output in the previous year, the authorities had introduced a massive fertilizer programme. As a result, per hectare application rose by nearly 40 per cent, from 126 to 175 kg. The anticipated effects were not obtained, however, partly due to poor moisture conditions in that year and partly because of difficulties in spreading knowledge about application techniques. Average per hectare supplies in 1969 amounted to 148 kg.

The policy of encouraging specialization and concentration of production, especially in the fruit and vegetable sector, was actively pursued in 1969. New measures are now being envisaged; according to proposals under study, the bulk of vegetables, for instance, will in the future be grown in some 120-150 large enterprises located in the most suitable regions. Such a concentration is expected to reduce costs of production, to improve quality and, in general, to facilitate exports to the convertible currency areas.[74]

With an increase of almost 5 per cent, global agricultural output in *Romania* more than recovered its 1967 level, in spite of climatic difficulties; the total crop of cereals was maintained practically at its 1968 level, due to a further increase in the maize harvest. Production of

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[74] See *Rabotnichesko delo*, 7 December 1969.

TABLE 14

Supplies of tractors, grain combines and chemical fertilizers

(Tractors and combines in thousands, fertilizers in kilogrammes of pure content per hectare of arable land)

Country	Tractors 1966	Tractors 1967	Tractors 1968	Tractors 1969	Combines 1966	Combines 1967	Combines 1968	Combines 1969
				Stocks				
Bulgaria [a]	71.8	76.0	84.0	..	13.1	14.5	15.9	..
Czechoslovakia [a]	185.9	195.2	204.7	..	12.3	13.0	14.4	..
Eastern Germany [b]	132.8	138.7	144.3	..	16.8	17.6	17.9	..
Hungary	66.8	66.9	64.3	..	9.7	9.8	9.9	..
Poland	136.7	151.2	168.4	189.5	..	..	..	..
Romania	90.8	93.9	96.4	ca. 100	36.8	41.8	47.1	..
				Deliveries				
Bulgaria	7.3	7.0	..	..	1.6	2.5	..	..
Czechoslovakia	14.4	7.4	..	..	3.2	1.6	..	..
Eastern Germany	10.3	10.7	11.2	11.1	1.4	1.4	0.7	1.6
Hungary	6.5	..	..	..	1.7	..	..	..
Poland	21.6	24.2	24.9	ca. 30	..	..	..	2.0
Romania	11.6	8.3	8.5	9.4	4.0	4.9	7.8 [c]	4.4

Country	Fertilizer application 1966	Fertilizer application 1967	Fertilizer application 1968	Fertilizer application 1969
Bulgaria	99	126	175	148
Czechoslovakia	175	183	185	ca. 220
Eastern Germany	279	297	301	313
Hungary	63	112	120	132
Poland	88	101	116	135
Romania	34	45	50	ca. 60

Sources: Statistical yearbooks, plans and plan-fulfilment reports.

[a] Tractors in 15 hp units.
[b] Equipment in socialist sector only.
[c] Including combines for maize.

sunflower seed improved slightly, whereas a small decline was recorded in that of sugar-beet. The fruit and grape harvest is reported to have been some 30 per cent larger than in the preceding year.

Following the official policy of improving the territorial distribution of crops, cultivation of maize will be expanded in the area of the plains, while wheat production is being shifted to climatically more favourable regions in the vicinity of the mountain areas. Along the same policy lines, 80 per cent of sunflower seed cultivation will be concentrated in the south-eastern part of the country.[75]

Ample supplies of maize in recent years seem to have permitted a continuous increase in the pig population, which totalled nearly 2.5 million at the 1969 end-year census. But for the second consecutive year, the cattle and sheep herds declined slightly.

Current input levels are gradually increasing. Deliveries of fertilizers were 10 per cent larger than in the preceding year, but average supplies per hectare are still only 60 kg. The improvement in tractor supplies was of a similar order of magnitude and the total stock now represents 1 tractor per 96 hectares of arable land.

Total agricultural investments also rose by about 10 per cent; as in other recent years, a considerable share was devoted to irrigation works. At the end of 1969 the total irrigated area amounted to 676 thousand hectares; another 200 thousand will be added in 1970, but the target of 1 million hectares in the current medium-term plan period will not be entirely fulfilled. Ambitious programmes have been outlined for the future: in 1975, the irrigation net is planned to cover 2.5 million hectares, or 25 per cent of the arable area; the target for 1980 is 3.5-4 million.

At the end of December 1969, important organizational measures were decided with a view to improving planning and management in the collective farm sector, which at present comprises 60 per cent of the farm land. The objectives are mainly to promote the concentration and specialization of production. Until now, Romania was the only country in the east European region still maintaining a system of State-owned machine and tractor stations; as a result of the recent measures. the latter will be integrated with the farm units. New regulations for the calculation of work norms and labour remuneration are also included in the reform. Furthermore, the co-operatives will be permitted to engage in certain activities within the food-processing and craft industry. As supreme authority, the Agricultural Council has been replaced by a Ministry of Agriculture.

Hungary was the one east European country where weather conditions were reported to be satisfactory in 1969. The changes in Hungarian agriculture in the past year may provide, therefore, a rough indication of the latent production possibilities of the other countries of the area. At the same time, the developments in Hungary reveal certain problems in the agricultural sector which are also found in several other east European countries.

Further progress in average crop yields was the main factor contributing to the increase of global output by 5-6 per cent. Total cereals production was at a record level; the extensive introduction of high-yielding wheat varieties and the use of hybrid seeds on practically the whole maize area, now representing about a quarter of total arable land, partly explain this success. Another important factor was the rapidly increasing level of fertilizer application, which has now almost doubled in the past three years to 140 kg per hectare in 1969. The yields of most technical crops improved. The harvest of tomatoes was abundant and 30 per cent more fruit was produced than in the previous year.

Developments in the livestock sector were not so favourable. In general, animal yields continued to improve, but total output declined by some 1-2 per cent. The initial stock situation was weak and a further fall in cattle and pig numbers was recorded in 1969. Special concern has been expressed about the cattle herd, as favourable domestic and foreign market conditions led to excessive slaughterings, thereby impairing the output situation in the near future. However, the basic problems are structural in nature. A substantial share of the livestock is still kept in small-scale holdings (in June 1969, 40 per cent of the cattle and 57 per cent of the pigs), but the size of the stock is rapidly declining (cattle by as much as 10 per cent per year in 1968 and 1969). The establishment of large-scale specialized production units cannot offset this development. Peasant earnings in Hungary have been growing relatively fast in recent years and are now considered to be at parity with those of industrial workers, but the prevailing prices in stock farming do not provide incentives to production efforts in this branch.[76] The new prices for slaughter cattle, pigs, sheep and milk, which entered into force on 1 January 1970, together with the support to be given to owners of individual plots, are expected to have a favourable effect. However price changes alone will not solve all the problems. Production costs have generally to be lowered and this objective calls for the erection of modern buildings for animal accommodation and improvements in the mechanization level.

Investment outlays in the agricultural sector in 1969 increased by about a third, of which 60 per cent was accounted for by buildings. Great efforts were made in the livestock sector and attention was also given to the enlargement of storage capacity, which caused great concern in the year under review, especially in connexion with the abundant harvest of cereals. The situation has deteriorated continuously in recent years and to solve the problem a programme has been launched for the State-supported building of large reinforced concrete silos.

1969 was a favourable export year for Hungarian agriculture. Cattle and meat, fresh fruit and vegetables, as well as canned products, were exported mainly to western industrialized countries. Hungary is apparently counting on the continuation of agricultural exports, and in the mid-1970s exportable surpluses are expected for the majority of agricultural products. It is recognized that this will put considerable demands on economic management and require a close watch on developments in the world-market situation.

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[75] See *Problème agricole*, No. 9, 1969, p. 8.

[76] According to the closing accounts for the year 1968, the average rate of profitability was no more than 0.3 per cent.

4. INVESTMENT

(i) Changes in fixed investment

Most countries of the area envisaged a deceleration of the rate of growth of fixed investment in 1969. The actual rate of growth declined slightly in Poland and sharply in Romania and the Soviet Union, while Bulgaria recorded a substantial decline in the volume of investment (see table 15). In Czechoslovakia, however, the rate of investment expansion remained virtually the same as in 1968 although the plan had called for a significant decline. Eastern Germany and Hungary, the only countries which had planned for an acceleration of investment expansion in 1969, also exceeded their targets, but by comparatively small margins. In the former country, the rate of growth of investment has accelerated rather steadily in recent years.

An examination of the year-to-year changes in the pace of investment expansion of the various countries during the period 1966-1969 does not reveal any definite pattern. In several countries, these four years have been characterized by very sharp fluctuations in investment outlays (see table 15 and chart 1). Thus, in Bulgaria and Hungary, the highest growth rates (achieved in 1967) were 25 and 21 per cent respectively, while the lowest rates were —15 per cent in Bulgaria (1969) and 1 per cent in Hungary (1968). The smallest fluctuations were registered by eastern Germany, Poland and the Soviet Union. It appears, however, that most of the countries recorded a significant deceleration in investment expansion between 1966-1967 and 1968-1969; it was particularly marked in Bulgaria and Hungary. The exceptions were Czechoslovakia and eastern Germany; in contrast to the other countries, Czechoslovakia recorded its lowest rate of investment expansion in 1967.

The 1970 plans call for an acceleration of investment expansion in Romania, the Soviet Union and, in particular, in Bulgaria. In the other countries, investment is expected to expand at lower rates than those recorded in 1969, with particularly sharp reductions in Czechoslovakia and Poland. Assuming that these expectations will materialize, the investment expansion during the five years 1966-1970 will exceed the plans by a comparatively wide margin in Czechoslovakia, eastern Germany and Hungary, while for the other countries the results achieved will be rather close to those planned.[77]

As shown in last year's SURVEY, the incremental capital-output ratios, which rose in all countries between 1951-1955 and 1961-1965, have tended to fall in recent years. The results achieved last year and the plans for 1970 seem to confirm this development.

Investment ratios, growth rates and incremental capital-output ratios

	Investment ratios		*Growth rates*		*Incremental capital-output ratios*	
	1961-1965	*1966-1970a*	*1961-1965*	*1966-1970a*	*1961-1965*	*1966-1970a*
Bulgaria	26.7	33.6	6.7	8.6	4.0	3.9
Czechoslovakia	25.4	26.7	1.9	6.9	13.4	3.9
Eastern Germany	20.1	24.1	3.5	5.4	5.7	4.5
Hungary	29.4	32.9	4.5	6.7	6.5	4.9
Poland	23.3	29.4	6.1	6.2	3.8	4.7
Romania	33.6	36.0	9.0	8.6	3.7	4.2
Soviet Union	23.7	23.8	6.5	7.2	3.6	3.3

Sources: Statistical yearbooks, plans and plan-fulfilment reports.

NOTE. — Investment ratios show total gross fixed capital investment as a percentage of national income: both investment ratios and growth rates refer to national income produced; incremental capital-output ratios are calculated without the usual time-lag between capital investment and the increase of national income. For an indication of the relationship between net investment and national income in 1965 see Part I, chapter 4, table 4.5 of this SURVEY.

The ratios refer to total investment in all countries. Some estimates for 1969 and the plan for 1970 have been made on the assumption that total investment changes in harmony with State investment.

For the price base of calculations see table 15.

a Based on actual rates in 1966-1969 and the planned rates for 1970.

Czechoslovakia, eastern Germany, Hungary and the Soviet Union are likely to achieve a decrease in their capital output ratios between 1961-1965 and 1966-1970. In the first three countries, this change will be associated with an increase in the investment ratio as well as with an acceleration of the growth of national income; the Soviet Union is the only country which is unlikely to experience any significant increase in the investment ratio between 1961-1965 and 1966-1970. Bulgaria will probably keep its capital output ratio approximately unchanged at the 1961-1965 level, while increases in this ratio may be recorded by Poland and Romania; the latter country is the only one which will probably not accelerate the growth rate of its national income between the two periods, while the expected slight acceleration in Poland is unlikely to be sufficient to offset the higher investment ratio.

In most countries of the area, investment demand in 1966-1968 tended to exceed the resources available for fixed capital formation. In several cases, demand was stimulated by a move towards a certain decentralization of investment decisions, supported by the creation of larger funds at the enterprise level and greater reliance on credit as a source of investment financing. Excess demand resulted in a dispersion of efforts which was reflected in an increase in the stock ratio, i.e. the net additions to the stock of uncompleted investment as a percentage of fixed investment outlays which reached relatively high levels in several countries in 1967 and/or 1968 (see table 18).[78]

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[77] It has been stated that in Albania the volume of fixed capital investment in the first four years of the current five-year plan was 12 per cent above the planned figure.

Measures were taken in most countries last year to reduce the stock ratio and to concentrate resources on important projects of State investment. As compared with 1968, the additions to the stocks of uncompleted investments fell in 1969 in all countries for which data are available. Nevertheless, the imbalance between demand and available resources persisted in several countries in 1969, as indicated by the analysis presented in (ii) below of developments in the construction and building-materials industries; in particular, the latter industry constituted a bottleneck in 1969.

In contrast to building materials, engineering goods are widely traded internationally. In most countries the metal-processing industries expanded at a relatively rapid pace in the years 1966-1969 (see table 16). Fluctuations in investment outlays were therefore mainly reflected in changes in the rates of expansion of exports and, in particular, of imports of machinery and equipment. Thus the investment drives in Bulgaria and Romania in 1966 and 1967 caused sharp upswings in imports of machinery and equipment, while the subsequent decelerations of investment activity were associated with a stagnation of imports with exports of machinery and equipment continuing to expand. These developments illustrate the relationship between trade balances and investment activity, which is especially significant in small countries where imports account for a large share of investment in machinery and equipment.[79] In such countries, excessive investment demand tends to result in balance-of-payments problems.

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[78] The stock ratio may also be influenced by changes in the structure of investment.

[79] In 1963-1966, this share was about 50 per cent in Bulgaria, 32 per cent in Romania and 25 per cent in Hungary.

TABLE 15

Growth of fixed capital investment and of national income

(Annual percentage changes)

	Plan		*Actual*				*Plan*	
	1966-1970 *(annual averages)*	*1966-1969*	*1966*	*1967*	*1968*	*1969*	*1969*	*1970*
Bulgaria								
Fixed investment [a]	13.5	9-10*	22.3	25.1	9.1	–15*	–4	24
National income	8.5	8.5	11.1	9.0	6.4	7.7	10	9
Fixed investment as a percentage of national income	31.0	32.9	30.2	34.7	35.7	31.1	..	35.8
Czechoslovakia								
Fixed investment	5.6	8.2	9.8	2.7	10.4	10.3	6.5	2.5
National income	4.1-4.4	7.3	10.2	5.2	7.5	6.5	7	5.2
Fixed investment as a percentage of national income	27.7	26.7	26.5	25.9	26.6	27.6	..	26.8
Eastern Germany								
Fixed investment	8.0-8.7	9.7	7.0	9.2	10	13	11.0	11.0
National income	ca. 5.5	5.2	4.9	5.4	5.3	5	6.0	6.3
Fixed investment as a percentage of national income	22.6	23.4	21.8	22.5	23.5	25.4	..	26.5
Hungary								
Fixed investment [a]	7.0	9.4	9	21	1	7-8	7	6-7
National income	3.5-3.9	7.0	8.4	8.7	5.0	6	5-6	5-6
Fixed investment as a percentage of national income	28.3	32.8	30.5	33.9	33.6	33.1	..	33.4
Poland								
Fixed investment [a]	8.0	9.2	8.5	11.3	9.0	8.2	9.2	2.5
National income	6.0	6.3	7.2	5.6	9.0	3.5	5	5.8
Fixed investment as a percentage of national income	27.7	29.3	27.8	29.3	29.3	30.6	..	29.7
Romania								
Fixed investment [b]	10.3	11.4	10.7	17.3	11.2	5.1	9	9
National income	ca. 7.5*	7.8	10.0	7.3	6.8	7.3	..	12
Fixed investment as a percentage of national income [b]	31.9	31.5	28.9	31.4	32.8	32.3	..	31.4
Soviet Union								
Fixed investment	7.4	7.0	7.6	8.2	8.1	4	6	7.6
National income	6.6-7.1	7.6*	8.0	8.8	7.5	6 [c]	6.5 [c]	6.0 [c]
Fixed investment as a percentage of national income	24.4	23.8	23.8	23.8	23.9	23.5	..	23.8

Sources: Statistical yearbooks, plans and plan-fulfilment reports.

NOTE.— The price base for the information on investment and national income for the calculation of investment ratios is: Bulgaria—pre-1963 prices; Czechoslovakia—1963 prices and 1960 prices respectively; eastern Germany—pre-reform prices; Hungary—1955 prices; Poland—1961 prices; Romania—1963 prices; Soviet Union—1955 and 1958 prices respectively. Unless otherwise stated, data refer to national income produced.

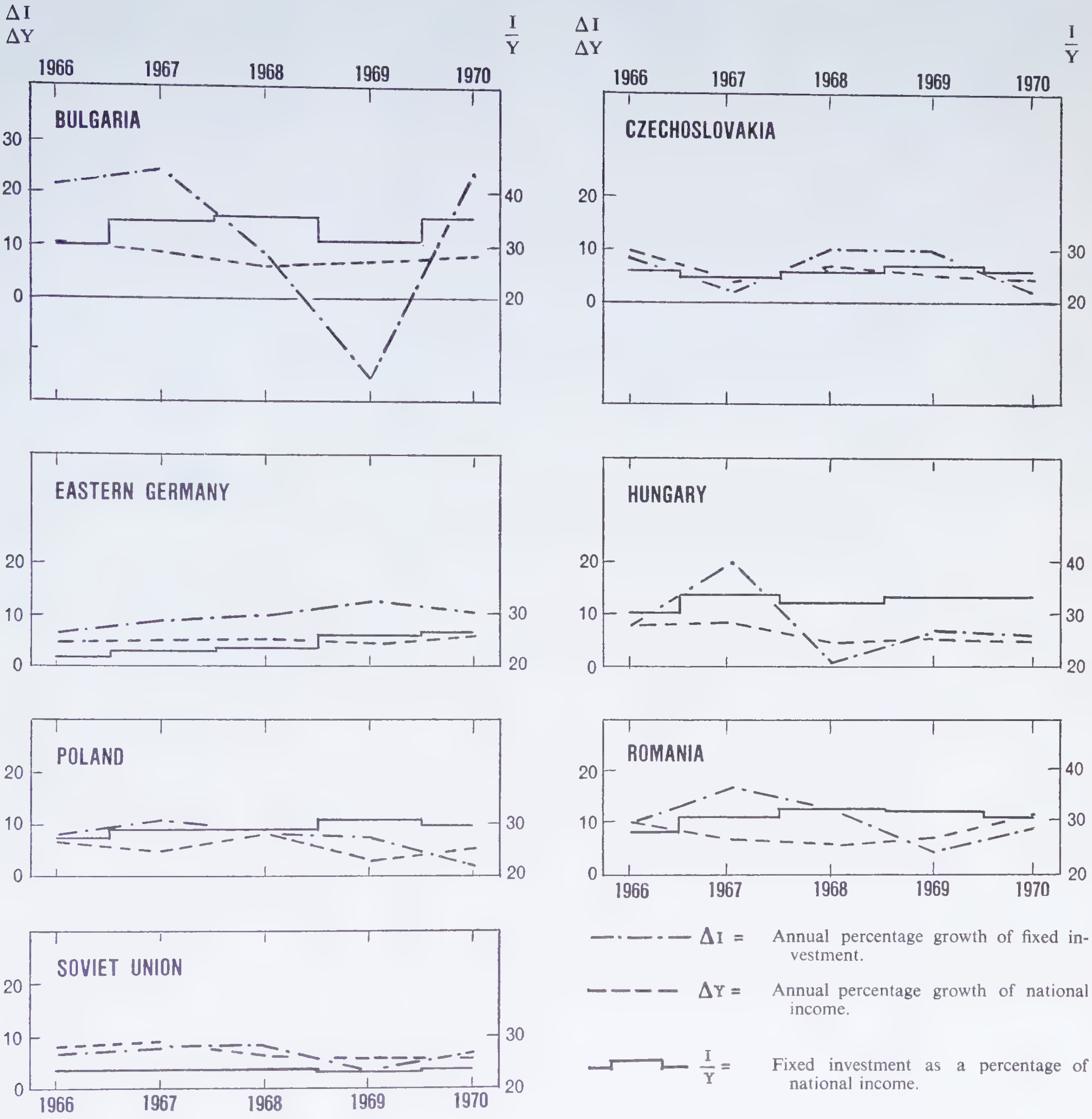
[a] Excluding private investment.

[b] Refers to centralized State investment (about 90 per cent of total investment).

[c] National income distributed.

CHART 1

Growth rates and investment ratios



Sources and notes: see table 15.

TABLE 16

Production and foreign trade in the investment-goods sectors

(Annual percentage changes)

	Actual				Plan	
	1966	*1967*	*1968*	*1969*	*1969*	*1970*
Bulgaria						
Output of:						
Construction industry	17.9	17.8	11.5	4.2	..	8
Construction-materials industry	8.8	17.0	8.4	3.7	..	..
Metal-processing industry	20.0	20.6	12.2	15.3	..	11
Exports of machinery and equipment	14	12	13	33[a]	..	..
Imports of machinery and equipment	36	11	2	–1[a]	..	..
Czechoslovakia						
Output of:						
Construction industry	9.2	6.8	6.2	6[b]	6.5[b]	6.9
Construction-materials industry	9.5	8.2	5.6	3.2	8.7	..
Metal-processing industry	10.6	11.2	7.6	6.9	11.2	7.0
Exports of machinery and equipment	5	2	6	..	..	..
Imports of machinery and equipment	11	–7	17	..	..	..
Eastern Germany						
Output of:						
Construction industry	5	10	10	ca. 10[c]	12	8.6
Construction-materials industry	5.0	4.3	6.1	8	..	..
Metal-processing industry	8.0	7.8	7.5	ca. 8-9	..	..
Exports of machinery and equipment	..	8.0	14.0	..	..	..
Imports of machinery and equipment	..	5.5	14.0	..	..	..
Hungary						
Output of:						
Construction industry	11	13	6	6-7	6-7	7-8
Construction-materials industry	10	11	1	–5	7.5	5
Metal-processing industry	9	10	7	4	7	7
Exports of machinery and equipment	1	6	14	7	..	..
Imports of machinery and equipment	4	29	–9	8	..	..
Poland						
Output of:						
Construction industry	8.1	9.8	9.3	5.4	..	2.9
Construction-materials industry	6.9	7.8	9.3	7.2	6.1	6.2
Metal-processing industry	9.6	10.8	14.3	13.5	12.9	10
Exports of machinery and equipment	4.6	13.6	16.0	16.3	13.4	..
Imports of machinery and equipment	14.1	11.8	4.7	15.9	16.9	..
Romania						
Output of:						
Construction industry	10	18	12	5.7	..	..
Construction-materials industry	9.2	13.8	17.7	11.8	12.5	..
Metal-processing industry	13.5	16.7	17.3	15.3	13.6	13.8
Exports of machinery and equipment	0.9	28.7	18.3	..	..	..
Imports of machinery and equipment	18.5	51.2	–0.4	..	..	..
Soviet Union						
Output of:						
Construction industry	6.5	8.7	7	6	8	..
Construction-materials industry	9.1	9.5	7	4	7	..
Metal-processing industry	12	12	12	12	9.7	9.2
Exports of machinery and equipment	13	11	13	..	..	..
Imports of machinery and equipment	–5	14	19	..	..	..

Sources: Statistical yearbooks, plans and plan-fulfilment reports.

NOTE: The information on the construction industry refers to all sectors of ownership in Czechoslovakia, eastern Germany (except handicrafts) and the Soviet Union (except industrial activity on collective farms). State and co-operative sectors are covered in Bulgaria, Poland and Romania; the State sector only in Hungary.

[a] First nine months. [b] Construction enterprises only. [c] State sector only.

(ii) Construction

As shown in table 16, the rate of expansion of construction activity remained almost unchanged in 1969 as compared with 1968 in Czechoslovakia, eastern Germany, Hungary and the Soviet Union, but slowed down considerably in Bulgaria, Poland and Romania. The discrepancy between the rates of growth of the construction industry and fixed investment outlays exceeded 2 percentage points in eastern Germany and Poland, where construction lagged behind, and in Bulgaria and the Soviet Union, where investment outlays grew more slowly. The discrepancy was particularly large in Bulgaria, where the decline in fixed investment outlays was accompanied by a modest increase in construction activity.

The contribution of employment to increases in construction activity was on the whole minor last year. Employment in the construction sector remained either

Table 17

Changes in factor inputs and output in construction industry

(Annual percentage changes)

Country and year	*Employment*	*Capital stock*	*Output*	*Capital intensity*	*Labour productivity*
Bulgaria					
1966	11.8	27.5	17.9	15.7	5.5
1967	9.7	24.6	17.8	18.7	7.4
1968	1.7	13.8	11.5	12.3	9.6
1969	—	..	4.2	..	4.2
Czechoslovakia					
1966	3.8	7.8	9.2	2.9	5.2
1967	3.2	7.5	6.8	5.2	3.5
1968	1.8	9.5	6.2	7.1	4.3
1969	–0.6 [a]	..	5.8 [a]	..	6.4 [a]
Eastern Germany					
1966	–0.4	7.0 [b]	5.5	7.6 [b]	5.9
1967	3.1	7.6 [b]	9.5	4.4 [b]	6.2
1968	6.9	15.2 [b] *	9.8	7.8 [b] *	2.7
1969	5	..	10 [c]	..	5
Hungary					
1966	6.5	10.7	11	7.6	4
1967	5.5	9.4	13	6.3	7
1968	6.0	17.4 *	6	14 *	—
1969	7	..	6-7	..	—
Poland [d]					
1966	2.7	8	8.1	3	5.3
1967	5.6	15	9.8	8	4
1968	4.8	11 *	9.3	6 *	4.3
1969	0.9	..	5.4	..	4.5
Romania					
1966	6	17	10	9	4
1967	8	11	18	4	9
1968	4	9	12	7	8
1969	..	..	5.7	..	..
Soviet Union					
1966	3.4	12.9	6.5	9.2 [e]	3.0
1967	4.5	10.9	8.7	6.1 [e]	4.0
1968	2.9	10.7	7.0	7.6 [e]	4.0
1969	3	..	6	..	3

Sources: National statistics, plans and plan-fulfilment reports.

Note. — Capital intensity is defined as fixed capital stock per employed person (both at end-year).

[a] Only construction firms.
[b] Annual averages.
[c] State sector only.
[d] State and co-operative sector.
[e] End-year capital stock related to average annual employment.

stable, as in Bulgaria, or varied by less than one per cent, as in Czechoslovakia (where it decreased) and in Poland (a small expansion). The change was more substantial in the Soviet Union, construction employment increasing by 3 per cent, and in eastern Germany where, in spite of a general shortage of manpower, employment in this sector increased by 5 per cent, which was less than planned. The employment expansion by 7 per cent in Hungary last year may have corresponded approximately to the reduction in working time.

The gain in productivity in 1969 ranged from 4 to 7 per cent,[80] accounting for about 50 to 60 per cent of the increase in output in eastern Germany and in the Soviet Union, and 80 per cent in Poland, while productivity rose at the same rate as output in Bulgaria and at a somewhat higher rate than output in Czechoslovakia.

Productivity has been rising rather steadily in most countries during the past four years, partly as a result of increasing mechanization and relatively ample supplies of construction equipment. In the period 1966-1968, capital intensity (i.e. fixed capital stock per employed person) rose by more than 50 per cent in Bulgaria, 25-30 per cent in the Soviet Union and Hungary and by 15-20 per cent in Czechoslovakia, Poland and eastern Germany.

The progress in the application of advanced building techniques was substantial in some countries in 1969. Eastern Germany, for instance, increased its reliance on light-metal structures in construction by a further 30 per cent, while State building enterprises in Hungary extended the technique of industrial housing construction from large-scale segments to 33 per cent of their housing output (in comparison with 22 per cent in the previous year). The use of prestressed concrete as a building material increased considerably (by 13 per cent) in Romania last year, but remained unchanged in relative terms in the Soviet Union and Czechoslovakia.

The building materials bottlenecks tended to worsen further in 1969. The main exceptions were Romania and Poland, where the rate of growth of the building-materials industry surpassed that of the construction industry by 6 and almost 2 percentage points respectively. In the other countries, the output of building materials expanded more slowly than that of the construction industry with the result that shortages persisted in respect of cement, bricks and prefabricated building components. The situation was particularly tight in Hungary, where the output of construction materials declined (stocks declined and the government arranged for imports of certain materials). In several countries, delays occurred in the completion of important projects in the State sector, in spite of the policy of limiting supplies to co-operatives and private constructors.

(iii) Changes in methods of planning and financial control

Experience in recent years has demonstrated the difficulties inherent in the task of combining achievement of central strategic investment objectives with the promotion of a flexible response to technological advance as well as to changes in domestic and foreign demand through a certain decentralization of investment decisions. These difficulties tend to be particularly significant in situations of excess demand. Administrative measures may be taken to ensure the implementation of centralized investment, but such a course of action cannot but limit the resources available for decentralized investment. On the other hand, failure to act, through administrative, financial or other means, gives rise to further dispersion of efforts and delays in the completion of projects.

As will be shown in (iv) below, several countries had to take short-term adjustment measures in 1969. Consideration has also been given to measures designed to improve investment planning and implementation in the long run. In particular, reference may be made to the systems of financial control introduced in eastern Germany and Hungary in 1968 and to the new system of investment planning adopted in the Soviet Union in 1969.

The new systems of comprehensive financial control introduced by eastern Germany and Hungary aim at co-ordinating, planning and managing the inter-related process of investment finance as one composite aggregate. They are designed to overcome the shortcomings of compartmentalization between State budgetary finance, credit financing and self-financing by enterprises, co-operatives and private housing investors. In principle, comprehensive financial control should also enable the authorities to adjust aggregate investment demand to the available supply of investment goods.

The new system of investment financing in eastern Germany which was introduced on 1 January 1968 seems on the whole to have functioned satisfactorily last year.[81] Budgetary finance to the amount of M4.6 billion, or 15 per cent of total spending on investments, was provided exclusively for infrastructural investment and some structurally important industrial projects. Investment finance to the enterprise sector was made available in the new system through self-financing, i.e. from depreciation allowances and profits channelled to their development fund and in accordance with normatives now established for two years, namely 1969 and 1970. The objective of limiting aggregate investment demand and of obtaining an investment distribution in accordance with planning priorities necessitated, however, a certain redistribution of investment resources. This meant that spending was blocked of one part of the investment finance earned by enterprises in some lower priority sectors and that these resources were re-channelled through the credit system to enterprises in higher priority sectors. The State Bank and the Bank for Industry and Commerce of eastern Germany

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[80] In Hungary, only for output per man-hour.

[81] For a description of this system, see *Economic Survey of Europe in 1967*, chapter II, p. 69 and the SURVEY for 1968, chapter II, pp. 107-108.

Hungary: Planned sources of investment finance in State and co-operative sector

	Billions of forints		*1970*
	1969	*1970*	*1969 = 100*
Budgetary funds[a]	30.4	23.4	77
Enterprise development funds	16-18	23	128-144
State subsidies, credits and depreciation allowances	ca. 26	32.6	125
TOTAL	72-74	79	107-108

Sources: *Népszabadság*, 8 and 19 December 1968 and 11 December 1969.

[a] Includes allocations of circulating capital to newly established enterprises.

had in this way become responsible agents for the distribution of credits not only from a strictly financial point of view but also from that of investment plan fulfilment in respect of investment efficiency and technical standards.[82]

Planners in Hungary have not succeeded so far in obtaining in the framework of their newly established system of investment planning all the advantages that can be realized by safeguarding an appropriate balance between aggregate investment demand and the available supply of investment goods.[83]

The financial resources available for the implementation of the 1969 investment plan were indeed abundant in the State and co-operative sector and the fiscal and credit policy measures introduced with effect from 1 January 1969 were not sufficient to absorb excess investment demand.[84] Budgetary investment was carried out according to plan. The limits set by the credit policy instructions were also maintained. But the financial resources available to agricultural co-operatives and to industrial and service enterprises considerably surpassed the supply of in-

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[82] See also *Neues Deutschland*, 16 January 1969 and 17 January 1970 and *Die Wirtschaft*, 1 January 1970.

[83] For reports on investment planning in Hungary, see the SURVEY for 1966, chapter II, p. 53, the SURVEY for 1967, chapter II, pp. 69-70, and the SURVEY for 1968, chapter II, pp. 114-115.

[84] These measures introduced, *inter alia*, a capital charge on capital invested on credit (while earlier only " endowed " or " self-financed " capital was subject to the charge) and restricted the volume of investment credit to practically the previous year's level. Temporary exemptions from the capital charge were withdrawn in some sectors, e.g. service industries. Moreover, a new tax was imposed on construction enterprises to absorb extra enterprise profits originating from " freely priced " construction.

TABLE 18

Completed investments and changes in the stock of uncompleted investments

(Billions of national currency units and percentages)

	1965	*1966*	*1967*	*1968*	*1969*
Bulgaria [a]					
Completed investments	0.89	1.12	1.55	1.49	1.63 *
Change in stock of uncompleted investments:					
1. In value	0.19	0.35	0.33	0.52	0.26*
2. As percentage of fixed investment	16	24	18	26	9 *
Czechoslovakia					
Completed investments	62.6	67.4	58.3 [b]	66.1	76.1
Change in stock of uncompleted investments:					
1. In value	-0.1	1.2	12.1 [b]	11.7	9.7
2. As percentage of fixed investment	-0.2	1.7	17.2 [b]	15.0	11.3
Hungary [c]					
Completed investments	42.9	42.1	50.5	58.1	..
Change in stock of uncompleted investments:					
1. In value	0.8	5.6	7.5	0.5	..
2. As percentage of fixed investment	1.9	11.7	12.9	0.9	..
Romania [d]					
Completed investments	35.3	42.3	42.5	49.4	56.7
Change in stock of uncompleted investments:					
1. In value	5.0	2.3	9.8	9.0	4.7
2. As percentage of fixed investment	12.4	5.2	18.7	15.4	7.6
Soviet Union					
Completed investments	44.7	47.9	52.1	53.8	40.8 * [a]
Change in stock of uncompleted investments:					
1. In value	4.0	4.5	4.6	7.5	3.8 * [a]
2. As percentage of fixed investment	8.2	8.6	8.1	12.2	8.5 * [a]

Sources: Statistical yearbooks and plan-fulfilment reports.

[a] State investment only.

[b] Derived as the difference between investment at 1 January 1967 prices and completed investments at current (1967) prices (see *Statistická ročenka ČSSR*, pp. 193, 197). Some part of completed investment, however, may have been priced at 1 April 1964 prices, which were 22 per cent lower; it is thus possible that the derived differences are lower than appears in the table.

[c] State and co-operative investment.

[d] Centralized State investment only

vestment goods.[85] The level of construction costs, in consequence, increased further (by 5 per cent in 1969 according to the plan-fulfilment report) and delays accumulated in the completion of constructions.

The financial programme introduced in the context of the plan for 1970 provides for a series of further measures with a view to establishing a better balance between investment demand and the supply of investment goods. Budgetary financing of investment is to be sharply reduced; the credit policy instructions for the year maintain the limit of investment credit unchanged at last year's level (8.5 billion forints); measures for a re-channelling of financial resources between " saving " and " investing " enterprises are also foreseen. Further measures have been taken with a view to improving the supply of investment goods, in particular by subsidizing investment in the construction-materials sector. This progress towards an equilibrium in the investment sector can be expected to reinforce further the favourable stimulatory effects—which were already apparent in 1969—on high return investments, in particular in export industries, domestic trade and in the service industries.

The whole complex of problems related to investment planning and implementation has been the subject of a series of important measures in the Soviet Union. The Resolution by the Party Central Committee and the Council of Ministers of June 1969 " on the improvement of the planning of capital investment and the reinforcement of economic incentives in the construction industry ", together with two related measures,[86] developed a comprehensive approach for the solution of these problems—which will become effective with the introduction of the forthcoming ninth (1971-1975) five-year plan.

The new system of investment planning provides for a close co-ordination of investment plans with other parts of the national economic plan, as well as for a strict central control of preparation and revision. Planning authorities are directed to ensure an adequate balance between plans for investment and those for finance and manpower and for the construction materials industries. The five-year investment plans (which will be the standard form) will be subject to central approval together with the annual implementation plans (which will have to be established simultaneously with the five-year one). Subsequent changes will be strictly limited and will also require central approval.

The new system of financial planning is also made more comprehensive; at the same time, it provides for a greater degree of flexibility than in the past by extending the scope of credit financing. The financial plan and all related parts of the investment plan will incorporate not only centralized State investment but all other sources of investment finance including, for instance, collective-farm investment. In respect of credit financing, the USSR Investment Bank and the USSR State Bank are granted increased authority, with special responsibility for ensuring the most rational channelling of credits.

The contractual link between investors and construction enterprises is substantially reinforced in the new system. The general contract, which will include detailed cost estimates, is established as the basic document regulating rights and obligations of " client " and "contractor "; it is also designed as the main instrument safeguarding planning and financial discipline on the " implementation " level.

Reorganization of the construction industry is an important part of the reform.[87] The industry's plans from 1970 onwards include indicators not only of the global volume of construction and installation work but also of completed work (or steps of completed work), as handed over to the investor.[88] In the new system, the latter are the decisive indicators for the distribution of allocations from profits to the enterprise funds for material incentive and production and social-housing development. The common material interest of investors and contractors in investment completion was further promoted in the context of these measures by a rise in the rates of bonus payments—shared out between, on the one hand, investing administrations and enterprises and, on the other, construction, assembly and project firms—to 2.2 per cent of budgeted project costs (on the national average).[89]

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[85] *Népszabadság*, 11 December 1969 and 18 February 1970. Agricultural co-operatives invested 50 per cent more than originally expected while enterprise profits had risen particularly sharply in the construction industry and in domestic and foreign trade.

[86] " Resolution on the improvement of projecting and budgeting work " and " Resolution on the qualitative improvement of housing and social construction " (see *Ekonomicheskaya Gazeta*, 1969, No. 26).

[87] In particular, a new type of construction organization is being established, by forming mobile enterprise units (with mobile living quarters) with the special task of undertaking projects in remote areas.

[88] The new regulations refer, in addition, to the following indicators: cost budgets; annual wage fund; profits, budgetary allowances and taxes.

[89] Extra bonus payments are granted at progressive rates in accordance with the reduction obtained in comparison with standard completion periods, i.e. extra bonus of 10, 25 and 50 per cent for reductions by 10, 20 and 30 per cent respectively.

(iv) Review by countries

Fixed capital formation in the *Soviet Union* increased by 4 per cent in 1969 instead of the envisaged 6 per cent. However, the government succeeded in imposing its priority for the completion of investments in the State sector, partly by reducing the number of new starts on projects of national interest by one half (to 300). On the other hand, the planned concentration of the increment in resources on centralized investment did not materialize, although measures were taken to limit the allocation of equipment and materials to the collective farm and housing sectors.[90]

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[90] The plan called for increases of 8 and 1 per cent in centralized and decentralized investment respectively; according to data on the actual results, the latter rose slightly faster than the former.

As noted in (iii) above, the government also took a number of longer-term measures in the area of investment planning and implementation which are bound gradually to improve supply conditions in the investment goods sectors. Planners and policy makers therefore envisage for 1970 an expansion of investment designed to obtain a rather close fulfilment of the five-year (1966-1970) investment plan.

Soviet Union: estimated shares of machinery and construction

	Percentage shares			*1969 (1968 = 100)*	*1970 Plan (1969 = 100)*
	1968	*1969*	*1970 Plan*		
Machinery and equipment	31.0	30.5	31.6	102	113
Building and construction	60.4	61.0	59.6	105	106
Other investments	8.6	8.5	8.8	103	112
TOTAL	100.0	100.0	100.0	104	109
Value in billions of roubles	67.7	70.5	76.5		

Sources: Statistical yearbook, plan-fulfilment report and plan.

The shift towards an increase in the share of building and construction and a reduction in the share of machinery and equipment in 1969, shown in the above text table, was much less pronounced than was envisaged in the annual plan. Investment construction, according to the plan, should have increased by about 12 per cent instead of the 6 per cent actually obtained; this shortfall was largely responsible for failure to fulfil the investment plan.

Soviet Union: sectoral distribution of fixed investment

	Percentage shares		*1969 (1968 = 100)*	*1970 Plan (1969 = 100)*
	1969	*1970 Plan*		
Agriculture	18.9	19.2	105	111
Industry	36.9	39.2	104*	115
Construction	2.1	. .	(111)	. .
Housing	14.2	13.9	96	106
Other sectors	27.9	. .	(108)	. .

Sources: Izvestia, 11 December 1968; *Ekonomicheskaya gazeta*, 1969, No. 51; and plan-fulfilment reports.

The sectoral pattern of plan fulfilment, and in particular the fulfilment of the housing programme, reflected the shortfall in construction output. The plan had called for an increase of about 14 per cent in housing investment; in the event there was a decline from the previous year's level. By contrast, plans for industrial, agricultural and construction investment were fulfilled, investment in these sectors expanding at average or above average rates.

The sectoral distribution of the investment programme for the current year indicates the priority to be given to investment in productive sectors, in particular in industry and agriculture: of the total increase of 6 billion roubles over last year's actual investment, these two sectors are allocated 4 billion and 1.4 billion roubles respectively.

Soviet Union: fixed industrial investment by branches

	Percentage shares		*1969 (1968 = 100)*	*1970 Plan (1969 = 100)*
	1969	*1970 Plan*		
Fuel	20.8	22.0	138	122
Energy	13.1*	11.3	100	. .
Ferrous metallurgy	11.9[a]	11.0	(148)	106[a]
Engineering	18.1	19.3	100	123[b]
Chemicals	10.8	10.7*	104	117
Construction materials	6.9*	6.7	112	. .
Wood and paper	6.9	6.7	100	112
Food processing	6.1*	12.3	84	124
Light industries	5.4*		127	
Other industries	—			. .

Sources: Statistical yearbooks; plan-fulfilment reports; *Izvestia*, 11 December 1968; *Ekonomicheskaya gazeta*, 1969, No. 51.

[a] Total metallurgy.

[b] *Of which:* tractors and agricultural machinery production — 35 per cent, machine tool and instruments production — 41 per cent, light and food industrial machinery and household appliances — 62 per cent.

The distribution of industrial investment did not change substantially in 1969. Most of the addition appears to have gone to the fuel and metallurgical sectors (which seems to have included in 1969 the category previously listed as ' other ' industries). A further shift from food processing to light industries also occurred. The big increase in industrial investment in 1970 will be allocated largely to the engineering, fuel, chemicals, light and food industries, and within engineering to the machine-tool and instruments, tractors and agricultural machinery, and household appliances branches. The objective of introducing advanced techniques and developing existing standards is again apparent in this year's investment and production programmes: investment in the engineering industry is to be increased by 23 per cent and in the machine tool and instruments branch by 41 per cent. The production programme of the domestic engineering industry will permit a considerable expansion of supplies to industry of machine tools with programming control and of automatic or semi-automatic production lines. It is also envisaged that industrial co-operation with west European firms, along the lines developed in the motor-car industry, will be extended to the motor-truck industry.[91]

On the basis of available data on the sectoral distribution of investments in the past four years and in the plan for the current year, it appears that the expected fulfilment of the current five-year (1966-1970) investment plan will result in a close attainment of the housing programme, a less than planned five-year total of agricultural investment, and over-fulfilment of the industrial, construction and transport investment plans.[92] Actual capacity additions in the first four years of this plan (see table 19) are, however, already of structurally relevant dimensions in electric power industry, iron-ore mining for exports, mineral oil and natural gas production and transport, mineral fertilizer, plastic materials, synthetic resins and cellulose production, and in some consumer-goods industries (e.g. knitted wear and motor-car production).

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[91] For further details, see section 2 of this chapter.

[92] See the SURVEY for 1968, chapter II, table 13, and the relevant text table above.

TABLE 19

Additions to capacities in Soviet industry and transport

Type of capacity and units	Existing capacity or output in 1965 [a]	Planned additions 1966-1970	Additions to capacities					Additions in 1966-1969 as a percentage of	
			1966-1969	1966	1967	1968	1969	capacity or output in 1965	planned additions in 1966-1970
			In quantitative units						
Electric power									
Thousand MW	115	.65	42.4	10.0	9.6	10.8	12.0	37	65
Coal									
Million tons/year	(578)	165	66.0	20.6	19.6	12.5	13.3	(11)	40
Iron ore	(153)	182	81.4	21.8	15.8	27.9	15.9	(53)	45
Pig-iron	(66.2)	17.8	8.7	1.3	4.1	—	3.3	(13)	49
Crude steel	(91.0)	29.1	14.4	5.1	1.4	1.4	6.5	(16)	49
Rolled (finished) steel	(61.7)	23.2	9.8	4.8	2.7	0.7	1.6	(16)	42
Motor-cars									
Thousand/year	(616)	(740)	246	68.4	61.3	43.4	73	(40)	(33)
Turbines									
MW/year	(14 600)	(7400)	2982	760	967	710	545	(20)	(40)
High-voltage transformers									
Thousand MVA/year	..	..	26.5	10.4	8.7	3.4	4	..	
Metal-working machine tool									
Thousand/year	(186)	(34)	18.0	5	5.3	4.1	3.6	(10)	(53)
Mineral fertilizers									
Million tons/year	(31.3)	(31)	22.9	3.4	3.3	5.2	11.0	(73)	(74)
Plastic mass and synthetic resins									
Thousand tons/year	(821)	(1280)	509	152	83	211	63	(62)	(40)
Synthetic fibres	(407)	(370)	94	47	15	15	17	(23)	(25)
Varnishes and dyes	..	..	204	93	89	12	10	..	..
Motor-car tyres									
Million/year	..	..	7.0	1.3	3.2	—	2.5	..	..
Cement									
Million tons/year	(72.4)	(28)	10.9	3.9	2.3	2.8	1.9	(15)	(39)
Cellulose									
Thousand/year	(3230)	(5200)	1907	553	381	343	630	(59)	(37)
Weaving mills									
Thousand	..	..	40.5	12.7	9.0	10.8	8	..	..
Knitted outer and underwear									
Million/year	(907)	(740)	337	69	114	60	94	(37)	(46)
Shoes									
Million/pairs/year	(486)	(120)	117	14	22	55	26	(24)	(98)
Dairy products									
Thousand tons processed milk/day shift	..	..	9.3	1.6	3.1	2.3	2.3	..	..
Sugar									
Million tons of processed sugar-beet/year	..	..	57.8	24.8	15.5	11.1	6.4	..	..
Meat									
Thousand tons/day shift	..	..	1.8	0.8	0.5	0.3	0.2	..	..
Railway lines									
Thousand kilometres	131.4	6.6	3.1	1.2	0.8	0.3	0.8	2.4	47
Railway electrification	24.9	10.1	7.2	2.1	1.9	1.6	1.6	29	71
Gas pipelines and wayleaves	41.8	25	21.3	5.3	5.2	3.5	7.3	51	85
Mineral oil and product pipelines	28.2	12.9	8.2	1.4	2.9	1.2	2.7	29	64
Elevators									
Million tons of loading capacity	..	..	6.0	0.9	1.6	1.3	2.2	..	..
Grain stores									
Million tons	..	..	24.1	4.6	8.0	7.1	4.4	..	..
of which:									
Mechanized	..	..	..	4.6	4.9	3.8	..	..	

Sources: Statistical yearbooks, plans, plan-fulfilment reports; and *SSSR v novoi pyatiletneie*, 1966, pp. 30, 37 and 99.

NOTE. — Figures in brackets refer to output or additions to output. The figures shown refer to the lower limit of planned additions whenever an estimated range of additions was included in the plans.

[a] For capacity, end-1965.

The specific combination of central guidance and decentralized implementation that became effective two years ago in *eastern Germany* showed favourable results last year. With a 13 per cent rise (against 11 per cent planned) eastern Germany had the highest rate of investment expansion in eastern Europe in 1969. The central guidance provided to enterprises is in fact extremely strong in investment decisions as well as in the preparation, financing and implementation of investments. But enterprises have been given, through rules of profit making and self-financing, strong material interest in the economic efficiency of investments as well as in their implementation.

Aggregate investment demand was maintained within the limits set by the aggregate supply of investment goods—primarily by shifting financial resources from low priority to high priority investment (see (iii), above). The implementation of supply plans was somewhat less satisfactory. Domestic machinery supplies were complemented by substantially increased imports, from both east and west European partners, in particular of automative and other labour-saving equipment. Output of the building and construction industry, by contrast, was about 2 per cent below the plan target. The centrally managed national building combines reported good plan fulfilment but substantial shortfalls occurred in the locally managed building industry, in particular in housing construction.

The concentration of efforts on the completion of investments on " structurally essential highest-priority " schemes resulted in the completion of automation of production lines in many plants, and the commencement of production in a number of key projects in petrochemicals, scientific instruments production, electronic data-processing equipment production and the construction industry. Completion delays were reported, however, for some plants in the chemical industry and in housing construction, where the number of completions (72 thousand dwelling units) was 4 thousand less than in 1968 and also below the planned target.

The sectoral distribution of investment (on which detailed statistics have not been released so far) again reflects the high priority given to industrial and construction investment. It is known, however, from the plan-fulfilment report that investment expansion exceeded the average of 13 per cent in electronics, data-processing and business-machine production, measuring, operating and controlling equipment production, the precision and optical instruments industry, and in the construction and the construction materials industries. Further important allocations went to the energy sector and other branches of basic-materials production. Light and food industries, too, sustained high rates of expansion.

The plan for 1970 gives continued high priority to industrial and construction investment and to the realization of investment projects incorporating the highest possible technical standards. Within the planned increase of total investment by 11 per cent, industrial investment (which has had a falling share in the total in recent years) is scheduled to rise by 20 per cent, and investment in the chemical and electronics-electrotechnical industries by as much as 40-50 per cent.

The originally envisaged expansion of the investment programme by 12.6 per cent has been reduced to 11 per cent, most probably in order to maintain the balance between investment demand and supplies. The re-allocation of financial resources between enterprises is likely to have a substantial demand limiting effect. Investment earmarked for structurally important projects amounts to as much as 70 per cent of the total in chemicals, 76 per cent in electronics-electrotechnical industries, 62 per cent in industrial equipment and vehicle production, and 61 per cent in the construction industry.

On the supply side, provision has been made for a considerable expansion and a structural improvement of the construction-materials output. An 8 per cent increase is planned in the production of cement, and 25 per cent or so in the output of porous silicate products, gypsum elements and light materials for mixture (which should contribute to the reduction of the material intensity of construction).

In industry, the greatest importance is attached to the automation of existing plants and the establishment of highly automatized new plants. In transport, four container centres are to be established, four container vessels to be put into operation, and 6,000 containers to be acquired. In railway transport, the share of electric and diesel-electric traction is scheduled to rise from 48 per cent in 1969 to 58 per cent in the current year.

Investment policies in *Czechoslovakia* in recent years have aimed at a moderate investment expansion, a devolution of decision-making from the centre to decentralized units and a shift in the distribution of investment in favour of housing and processing industries. Actual developments have brought the envisaged decentralization, a more rapid than planned expansion of investment, and much of the planned shift in favour of the tertiary sector. The plan for 1970 and policy measures related to it, again envisage a moderate rate of investment expansion, a reinforcement of central decisions and control, and a further strengthening of the priority given to the tertiary sector and housing.

Fixed capital investment rose by 10 per cent in 1969, the same rate as in the previous year. Total fixed capital investment in 1969 amounted to about Kčs 85 billion of which State and co-operative investment (excluding housing co-operatives) was about Kčs 75 billion and co-operative and private housing investment some Kčs 10 billion. The contribution to the investment process of co-operative and private housing investors has risen sharply in recent years: it was about Kčs 4 billion in 1966, about Kčs 6½ billion in 1967, and more than Kčs 7 bil-

Czechoslovakia : estimates of enterprise investment by sources of finance

	Percentage distribution			*1969*	*1970 Plan*
	1968	*1969*	*1970*	*(1968 = 100)*	*(1969 = 100)*
Budget-financed . . .	13	12½	35	107	275
Credit-financed . . .	30	30½	20	110	66
Self-financed	57	57	45	108	80
TOTAL	100	100	100	108	100

Sources: Plan-fulfilment reports; *Plánované hospodářství*, 1969, No. 10, and 1970, No. 1.

lion in 1968; and it is expected to increase to as much as Kčs 12 billion in the current year.

Investment demand has risen rapidly in the course of the past three years and it has by no means been easy to ensure its control and satisfaction. State enterprise profits were much higher than planned subsequent to the price reform of 1 January 1967, due to the higher than anticipated rise in the level of wholesale prices.[93] Financial resources of the enterprise sector increased rapidly because the initially established conditions of profit earning enabled most enterprises to accumulate substantial reserves, including investment reserves, contingency reserves and other types of enterprise funds.[94]

The role of credit-financing also proved to be important in the process of creating claims on investment resources. The State Bank is known to have provided investment credits of Kčs 12 billion in 1967, about Kčs 16 billion in 1968 and about Kčs 19 billion in 1969.

This powerful expansion of investment demand in the State enterprise sector from enterprises' own resources and from credit-financing induced the Government to impose restrictions on the volume of new starts on investment projects. This control, first exercised through the State Bank, did not prove to be fully effective. Newly started projects rose to Kčs 19.7 billion in 1968, slightly more than foreseen in the December 1967 directives (Kčs 19 billion) and much more than the reduced figure in the annual plan (Kčs 14 billion). In the first half of 1969 the figure was Kčs 12.6 billion, which practically exhausted the entire annual quota (Kčs 13.6 billion). In June the Government therefore declared a complete ban on new starts and decided to control administratively the remainder of a slightly raised annual quota of Kčs 15.1 billion (which implied for the second half of the year a volume of new starts of not more than Kčs 2.5 billion).

Czechoslovakia: fixed capital investment and new starts on investment projects in industry

	Fixed capital investment			*New starts on investment projects*		
					Government directives of:	
	1967	*1968*	*1969*	*1968*	*Dec. 1968*	*July 1969*
Percentage distribution						
Fuel and ores	12.6	13.2	13.0	6.5	7.8	9.6
Electric energy	15.4	12.8	13.3	14.1	10.9	7.5
Metallurgy	12.3	10.2	8.6	21.6	21.9	31.5
Engineering	15.8	15.5	15.1			
Chemicals	17.0	18.5	18.0	24.3	14.8	25.3
Building materials, etc.	10.3	10.9	11.5	11.9	14.1	8.9
Manufactured consumers' goods	10.7	11.7	13.3	11.9	21.9	11.0
Food processing	5.9	7.2	7.2	9.7	8.6	6.2
Billions of Kčs						
Total industry	25.3	26.5	27.8	19.7	13.6	15.1

Sources: Information given by the Czechoslovak Government; *Finance a uver*, 1969, No. 11; Government directives No. 397/1968 and No. 185/1969.

The response of the supplying sectors to this increasing demand was, however, rather elastic. Supplies of machinery and equipment and of building and construction works increased in 1969 more or less in step with the overall expansion of investment—although shortages of building materials and of imported machinery and equipment were apparent.

TABLE 20

Fixed capital investment in Czechoslovakia

	1966	*1967*	*1968*	*1969*	*1969 Plan*	*1970 Plan*
Percentage distribution						
Total of primary and secondary sectors	60.9	54.5	52.6	49.7	50½ *	47.5
of which:						
Agriculture	13.8	10.9	12.9	..	12 *	..
Industry	43.9	40.2	36.0	..	35 *	..
Construction	3.2	3.4	3.7	..	3 ½	..
Total of tertiary sector	39.1	45.5	47.4	50.3	49 ½ *	52.5
of which:						
Housing	*12.7*	*13.5*	*13.6*	*13 **	*17 **	*16 **
Total of fixed capital investment	100.0	100.0	100.0	100.0	100.0	100.0
of which:						
State and co-operative sector, excluding housing co-operatives	97.0	94.7	91.9	88.4 *	93.0	86.5
Total of fixed capital investment *in billions of Kčs*	67.1	70.4	77.8	85.4	82.9	87.5

Sources: Statistical yearbooks; plan-fulfilment reports; information received from the Czechoslovak Government; *Plánované hospodářství*, 1970, No. 1.

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[93] See SURVEY for 1967, chapter II, p. 64 and SURVEY for 1968, chapter II, pp. 112-113.

[94] *Plánované hospodářství*, 1969, No. 10. The total of these reserves amounted to Kčs 40.6 billion on 31 December 1968, of which: investment reserve—Kčs 7.0 billion; contingency reserve—Kčs 21.0 billion; other funds—Kčs 12.6 billion. The increase in the total was Kčs 12.4 billion in 1967 and Kčs 16.7 billion in 1968.

Policies concerning the distribution of industrial investment have changed in recent years. In the 1967 directives, electric power, engineering, chemicals, building materials, food-processing and manufactured consumer-goods production were given the highest priority. In the July 1969 directives the priority accorded to chemicals was further reinforced but priority on new starts was given to such basic industries as fuels, ores and metals in place of building materials and consumers' goods.

The effectiveness of the policy with respect to new starts is naturally limited in view of their small size in relation to the total volume of construction and the relatively long average period of investment completions. Thus in spite of a global fulfilment of the investment plans, doubts remain concerning the possibility of transforming the country's industrial structure in accordance with the required up-to-date technical standards.

The planned increase for 1970 is only 2.5 per cent over the estimated actual level in 1969. This limitation of expansion should contribute to restoring the balance between investment demand and the supply of investment goods.

Investment activity has increased in *Poland* at roughly the rate planned in recent years. Plan fulfilment in 1969 was slightly below the planned target, but even with a pronounced deceleration of investment expansion in the coming year, the five-year plan should be met.

In 1969 the Investment Bank restricted authorizations for new starts on projects: from total requests of 31 billion zloty for credit financing, only 10 billion zloty were authorized. The supply of investment goods was on the whole adequate. The planned shift in the composition of investment from construction to machinery and equipment actually took place. Construction supplies increased by 5 per cent, supplies of machinery by 12 per cent and imported machinery by 16 per cent.

Poland: fixed capital investment by sectors

	1966	*1967*	*1968*	*1969*	*(1968=100)* *1969*
	Percentage distribution				
Agriculture . . .	12.6	12.2	12.2	12.3	109
Industry	43.8	43.9	44.4	45.4	111
Construction . .	4.3	4.6	4.6	4.6	107
Transport . . .	12.8	13.2	12.5	12.5	108
Trade	4.0	4.2	4.3	3.8	96
Housing	10.7	10.5	10.7	10.4	105
Other sectors . .	11.8	11.4	11.3	11.0	. .
Total value in billions of zloty .	133	148	161	175	108

Sources: Statistical yearbooks and plan-fulfilment reports.
NOTE. — Refers to State and co-operative sector, at current prices.

In spite of the substantial reduction in the rate of investment expansion foreseen for 1970, the problem of completions remains acute. Policies were therefore introduced limiting authorizations for new starts on investment projects to the actual volume of completed investments.

Planners in *Hungary* were successful in obtaining fulfilment in global terms of the annual plan in 1969. They were unable, however, to ensure financial equilibrium in the investment sector. The new set of fiscal and credit policy measures introduced with effect from 1 January 1969 absorbed only part of the excess investment demand. The introduction of the capital charge on capital invested on credit, and the withdrawal of exemptions from this charge combined with a restriction on newly granted investment credits, did not wholly eliminate excess purchasing power, while the new tax imposed on construction enterprises seems to have been passed on in part to investors in the form of price increases.

In these conditions the construction industry did not fully meet effective investment demand. According to the plan-fulfilment report, construction enterprises refused about 20-25 per cent of orders because of capacity shortages in 1969 (as happened in 1968). The supply of machinery and equipment was also insufficient to meet effective demand, in spite of the increase in imports of machinery.

There was, however, an improvement in the course of last year in the completion of investments. The construction industry concentrated on fewer projects and the stock ratio of uncompleted investments declined. Completion was reported of 17-18 of the 22 major high priority investment projects which had been scheduled for completion in 1969.

The sectoral distribution of investment showed a shift towards agriculture, trade and housing. But more important was the shift within the industrial and services sectors towards highly profitable investment projects with short recoupment periods. Cost considerations induced more selective attitudes in the purchase of machinery on the part of investors and also resulted in a greater geographical dispersion of investments. Profitability also induced an expansion of investment in the export industries and in the production of commodities and services in short supply. Housing construction reached the planned level which, however, was lower than the peak level in 1968.

The plan for 1970 reflects the attempt to ensure a more even and better balanced expansion in the investment sector. The expansion rate foreseen for total investment is close to the rate planned, and surpassed, last year. The number of new starts on major high priority investment projects is limited to seven, whereas the completion of 29 such projects is expected. Investment demand is to be restricted by a reduced State budget for centralized investment by the stabilization of the credit quota for investments and by the rechannelling of financial resources between enterprises (see pages 43 and 44 above).

After the substantial investment expansion in the first three years of the current plan period, *Romania* had a much more modest increase in 1969. Investment policies consequently concentrated resources on the centralized State sector, and were able to reduce excess demand for investment supplies and to obtain a much improved performance in respect of completions.

Construction output expanded in line with total investments and there was an improvement in the supply of construction materials. Cement production increased

Romania : Fixed capital investment

	Percentage distribution		Percentage change	
	1966-1970 Plan	1969	1969	1970 Plan
Agriculture	12.7	12.9	11.3*	2.5
Industry	55.8	56.8	3.5	9.5
of which :				
Electric energy, metallurgy, engineering, chemicals	..	59 [a]	4.0	..
Fuel, building materials, wood and paper	..	30.5 [a]	19.1	..
Manufactured consumers' goods and food processing	..	10.5 [a]	–2.6	..
Construction	2.4	3.6	–3.5	4.5
Transport and communications	11.5	11.9	13.1	1.4
Housing	6.2	5.5	4.2	–14.7
Other sectors	11.4	9.3	3.6	8.8
TOTAL	100.0	100.0	5.1	6.0
Total in billions of lei	280.5	61.4		

Sources: Statistical yearbooks, plans and plan-fulfilment reports.

NOTE. — Refers to centralized State investment.

[a] As a percentage of total industry.

more than construction output, primarily through the completion of two new production lines with a total annual capacity of 640,000 tons. Prestressed concrete production increased by 13 per cent, permitting an increased reliance on these techniques. Domestic supplies of machinery—still relatively limited in range in the agricultural, industrial and transport sectors—were generally adequate, but the limitation of imports with a view to reducing the balance-of-payments deficit had an unfavourable influence on plan fulfilment, in particular in respect of chemical, engineering, construction materials, manufactured consumers' goods and food-processing capacities.

Additions to the stock of uncompleted investments in the centralized State sector were reduced to 7.6 per cent of fixed capital investment, i.e. to 4.7 billion lei. This represented a considerable improvement in comparison with the two previous years, when additions to the stock of uncompleted investments increased by 15-19 per cent of investments.

The distribution of investment in 1969 reflected to a large extent the supply position of investment goods. The fastest growing sectors were those in which equipment supplies did not constitute a bottleneck, namely agriculture and transportation. Industrial investment increased at a below average rate and construction investment actually declined. Within industry, expansion was lowest in the electric energy, metallurgical engineering and chemical branches, but capacity additions last year were nevertheless important in the electric power and metallurgical industries (see page 24).

The plan for 1970 again foresees a relatively moderate total expansion of investment, with a redistribution towards the high priority branches of the 1966-1970 Plan. Emphasis is put on industrial and agricultural investment and possibilities will be provided for a substantial expansion of decentralized investments.

Total fixed capital investment in *Bulgaria* (which is understood to comprise investment in the State and co-operative sector and in collective farms) reached about 2.5 billion leva in 1969. This was less than foreseen in the original version of the annual plan, which had stipulated a reduction in comparison with the preceding year in view of the necessity of concentrating resources on the speeding up of completions, in particular of high priority projects. The actual reduction was, however, more than planned: instead of 4 per cent decline, fixed investment actually fell by about 15 per cent, partly due to the effect of delays in the supply of machinery and equipment on the progress of construction and installation work.

The problem of uncompleted investment had become serious in Bulgaria, following investment expansion at the extremely high average annual rate of 18.6 per cent (at constant prices) in the three years 1966 to 1968. Many of the new projects, especially in the industrial sector, had long completion periods and additions to the stock of uncompleted investments in these three years reached 18 per cent of total investments, 22 per cent of investment under the State plan and 26 per cent of State industrial investments.[95] Uncompleted investments were even higher than the State industrial average in some of the strategically important branches of industry: in engineering (38 per cent), non-ferrous metallurgy (36 per cent), chemicals (35 per cent), electric power production (34 per cent) and in fuel production (29 per cent). In 1969, however, the situation improved in comparison with the three preceding years. The total of completed investments last year reached 2.2 billion leva, equivalent to 88 per cent of the year's total investment. The ratio of uncompleted total investment was thus reduced from 20 per cent in the preceding year to 12 per cent in 1969.

The concentration of the investment effort on completions permitted a number of important industrial projects to be brought into operation. The country's electric-power producing capacity increased by 850 MW, capacity additions in the steel industry (in terms of annual output) amounted to 520,000 tons of pig iron, 130,000 tons of crude steel and 500,000 tons of rolled (finished) steel. Other important items included cellulose works with an annual capacity of 60,000 tons; rubber factories with an annual output of 1.2 million motor-car tyres; and brick-works with an annual output of 131 million units.

The supply of investment goods was more or less in line with the planned volume of investments last year. Construction output expanded and the supply of domestic equipment was satisfactory, in spite of a sharp increase in exports. The main bottleneck to continuing fast expansion has been the stagnation for two years of imports of machinery and equipment.

In spite of these difficulties and delays it is nevertheless likely that Bulgaria, like the other east European countries, will be able to fulfil its five-year investment programme in global terms.

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[95] The share of uncompleted investment was, by contrast, relatively low in the State sector not subject to the central plan (10.7 per cent) and in the collective farm sector (8.5 per cent).

5. CONSUMERS' INCOMES AND SUPPLIES

The slowdown in the rate of growth of national income in several countries of the area in 1969, which was largely associated with the poor performance of the agricultural sector, was inevitably reflected in trends in living standards. Although consumers registered further gains everywhere, the rates of improvement were generally below those attained during the first years of the current Five-year Plans (eastern Germany and Hungary providing the only exceptions). But in most countries the earlier progress had been fast enough virtually to ensure successful implementation of the longer-term targets for incomes and consumption.

As in the past, gains in per capita consumption were generally faster in 1969 than indicated by trends in employment income calculated on a per worker basis, due to a continuous rise in the family employment ratio and to the usually more than proportionate expansion of social benefits, particularly of pensions and family allowances. Demographic factors have been largely responsible for the latter for some time now. The " ageing of population ", i.e. an absolute and relative increase in the numbers of old people, contributed to the expansion of old-age pensions. At the same time, pro-natalist measures taken recently in several countries (Bulgaria, Czechoslovakia, Hungary and Romania) to offset the rapid decline in crude birth-rates generally experienced since the mid-1950s included generous children's allowances, often concentrated on the third child.[96]

As far as can be judged from the still incomplete data, little increase in real wages has been registered during the past two years in Bulgaria and Romania (where quite steep improvements occurred in 1966 and 1967) and in Poland. In the Soviet Union and Czechoslovakia, real wage gains of 3-4 per cent have been attained; in eastern Germany they were probably over 4 per cent and in Hungary 5 per cent. In most countries, average nominal wages and total wage funds were above the annual planned target, especially in Czechoslovakia and Hungary. This tended to contribute to the market instability experienced by several countries. Especially in Czechoslovakia, Hungary and Poland, this induced increases in consumer prices (in Czechoslovakia by as much as 4 per cent), and in most countries shortages of some commodities—though in varying degrees—were reported.

In Poland, Romania and the Soviet Union, the volume of housing construction was somewhat above that recorded in 1968, but in other countries it declined. In relation to the annual plan targets, particularly disappointing results were obtained in Czechoslovakia and in the Soviet Union, where the volume of construction fell nearly 20 per cent short of the plans (see table 25). It seems that Five-year Plan targets in the field of housing will remain largely unfulfilled in most countries of the area, although the levels of construction will generally be significantly above those attained in the 1961-1965 quinquennium.

The 1970 plans foresee marked increases in average wages in Bulgaria and Romania (some 7-9 per cent) but much more modest targets (2-3 per cent increases) in the other countries. However, per capita real incomes of the population are expected to grow much faster, particularly in the Soviet Union and Hungary. These rather optimistic targets seem in several countries to be based on the expectation of a substantial increase in agricultural output in 1970 (following the 1969 setbacks), which should contribute to a marked improvement in supplies of foodstuffs. By the same token, peasant incomes may generally be expected to rise more rapidly than in the two preceding years.

Developments in individual countries

At the time of reporting, very little information is available on developments in *Albania*. It would appear from the budget speech (*Zeri i Popullit*, 17 February 1970) that in 1970 real incomes of workers and employees are expected to be 16 per cent higher and those of peasants 36 per cent higher than in 1965. The original plan targets assumed 9-11 per cent gains for workers and employees and 20-25 per cent for peasants. In 1969, a good year both for agriculture and industry, the value of retail trade turnover rose by 9 per cent.

In *Bulgaria*, after the very good years 1966 and 1967 during which the per capita real income of the population rose by some 20 per cent (with incomes of wage-earners increasing somewhat more and those of peasants somewhat less), there was a noticeable slowdown both in 1968 and 1969, when this global indicator rose at the rate of about 3 per cent per annum. This deceleration in consumer gains can be largely attributed to poor results in agriculture and the unfavourable impact on the production of foodstuffs. In 1968, the rather fast increases in nominal income of the population (due partly to increased wage-rates, partly to further expansion of employment and partly to expanded social benefits)[97] was dampened by price increases particularly affecting foodstuffs. In the State retail trade, prices of food went up by 7.5 per cent and those of non-food articles by 1.5 per cent, and on the collective farm markets prices of vegetables were 34 per cent above the 1967 level.

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[96] In families with 3 children, total children's allowances amount now to about a quarter of the average monthly wage in Czechoslovakia and Hungary, and to about one-half in Bulgaria.

In 1969, average nominal wages of industrial workers were some 2 per cent higher than in the preceding year, and the price rises seem to have come to a halt, at least during the first half of the year.[98] Effective from October 1969, significant salary improvements (amounting to around 10-12 per cent) were granted to some categories of employees with university and post-secondary education and some pensions were raised by around 10 per cent.

At current prices, retail trade sales in 1969 were 7.9 per cent above the 1968 level, matching, probably even exceeding, the rise in the money incomes of the population. Deliveries to the domestic market were helped by the relatively good performance of light industry, particularly in textiles, the output of which rose by 8.7 per cent. There was some improvement in the sales of main foodstuffs compared with the previous year. Further steep increases were registered in supplies of some household durables such as refrigerators, electric stoves, vacuum cleaners and furniture, but for many articles, including building materials, demand was not met. On the other hand, industrial services to the population continued to improve in such fields as repairs and maintenance of household appliances and means of transport.

For 1970, a marked improvement is foreseen in real incomes which are expected to increase by 7 per cent on a per capita basis, i.e. in line with the envisaged acceleration in the rate of growth of national income and agricultural output. Some upward revisions of minimum wages and of basic wage tariffs will become effective from 1 April 1970. Thus, minimum monthly wages of workers and employees will be increased to 65 leva (in 1956 the statutory minimum wage was only 31.6 leva) and wage rates in the medium income range will go up by some 4 to 7 per cent depending on the economic sector.

The serious supply/demand imbalances in consumer markets which developed in *Czechoslovakia* in 1968 continued throughout most of 1969. As anticipated in the SURVEY for 1968,[99] the commitments made in the course of 1968 concerning upward adjustments of basic wages and of social security benefits gave a boost to money incomes of the population in 1969 which were not fully covered by a parallel rise in supplies of consumers' goods and services. Agricultural output rose by one per cent in 1969 and imports of consumers' goods had to be held down to improve the trade balance which had deteriorated seriously in 1968. Further pressure on supplies was due to some panic buying caused by false rumours of an impending monetary reform. In the circumstances, consumer prices rose more than anticipated and retail trade stocks fell sharply; and resort was taken to further re-direction of some exportable consumers' goods to domestic markets. A number of energetic anti-inflationary measures taken in mid-1969 eased the strain somewhat in the second half of the year, and a much stricter control of incomes and prices is foreseen for 1970.

Czechoslovakia: Money incomes and expenditure of the population

(Annual percentage changes)

	1966	*1967*	*1968*	*1969*	*1969 Plan*
Total money incomes . .	5.7	7.4	11.9	11.4	8.6
Wages	5.3	7.1	10.9	9.9	6.4
Incomes from agriculture	4.0	10.8	13.1	8.3	7.4
Pensions and social benefits	4.5	4.7	15.4	21.9	19.6
Other incomes. . . .	12.6	11.8	12.5	5.1	6.1
Actual money expenditure (excluding savings and cash-holdings) .	5.7	6.4	12.1	12.3	7.7

Sources: National statistics, plans and plan-fulfilment reports.

Following an 11.5 per cent growth in 1968, personal consumption rose in 1969 by about 7 per cent at constant prices. During the first four years of the current Five-year Plan this aggregate increased by some 30 per cent, compared with an 18 per cent increase foreseen for the whole duration of the plan.

Money incomes of the population rose in 1969 by 11.4 per cent. The total wage bill was nearly 10 per cent up on 1968 (when a 6 per cent increase was planned), being made up of a 7½ per cent improvement in the average wage and a 2 per cent expansion of employment outside agriculture. Improvements in average wages were to a large extent the outcome of changes in basic wage rates, but wage-drift was quite considerable, due partly to premia payments and to the increased incidence of overtime following the reduction of the working week. According to preliminary estimates referring to the first half of 1969, more than half the total wage increase was centrally decided.[100] The revisions of basic wages went some way towards improving the sectoral and industrial branch relatives by benefiting more than proportionately workers and employees in services and in light and food industries. However, there was hardly any improvement in the occupational and skill wage differentiation which was one of the aims of the reform.[101]

Household incomes also benefited greatly from increases in pensions and social security payments. Average pensions rose by 15 per cent and the number of pen-

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[97] Further increases in children's allowances, together with some restrictions on legal abortions introduced in early 1968 and some purely demographic factors (such as an increase in the number of women at younger reproductive ages), were probably responsible for some increases in the number of annual births and in crude birth rates in 1968 and 1969, after nearly two decades of continuous decline.

[98] The comparison of the value and the volume of state retail trade shows no changes in price levels during the first six months of 1969 compared with the corresponding period of 1968. However, prices of fresh fruit and vegetables sold on free markets continued to increase.

[99] Pages 163-164.

[100] *Prace a mzda*, No. 10, 1969.

[101] *Ibidem.* Unwarranted differentiation of incomes between enterprises was also reported, causing an excessive mobility of skilled labour in search of higher earnings. *Rudé Právo*, 29 January 1970, p.3.

TABLE 21

Average wages and incomes

(Percentage change from preceding year)

	1965	*1966*	*1967*	*1968*	*1969*	*1969 Plan*	*1979 Plan*
Bulgaria							
Real incomes of population (per capita)[a]	7	9	10	2.7	3	. .	7
Nominal wages (per wage-earner)	2	5	10	2[b]	2[b]	. .	. .
State retail trade price index	–1	—	—	5 *	. .	. .	. .
Real wages (per wage-earner)	3	5	10	–3	. .	. .	. .
Real incomes of wage-earner (per capita)[a]	2	9	13	. .	. .	. .	. .
Real incomes of peasants (per capita)[a]	13	7	7	. .	. .	. .	. .
Czechoslovakia							
Nominal wages (per wage-earner)	2.3	2.5	5.5	8.2	7.3	5	2.6
Cost of living	1.2	0.5	1.4	1.2	3.6	2-2½	. .
Real wages (per wage-earner)	1.2	2.0	3.9	7.0	3.6	2½-3	. .
Eastern Germany							
Nominal wages (per wage-earner)	3.8	2.1	2.5	4.7	. .	. .	. .
Cost of living[c]	0.4	0.4	0.3	0.3	. .	. .	. .
Real wages (per wage-earner)	3.4	1.7	2.2	4.4	. .	. .	. .
Hungary							
Real incomes of population (per capita)[d]	–0.4	6.3	5.0	5.9	6-7	4-5	. .
Nominal wages (per wage-earner)	1	4	4	2	7 *	. .	. .
Cost of living	1	2	1	—	1.5-2.0	. .	1.0-1.5
Real wages (per wage-earner)	—	2	4	2	5	2	2.5-3.0
Real incomes of wage-earners (per capita)[e]	—	5	5	5	7	. .	4.5-5.5
Real incomes of peasants (per capita)[e]	–2	11	6	8	5	. .	. .
Real consumption of peasants (per capita)[e]	2	5	7	5	. .	. .	. .
Poland							
Nominal wages (per wage-earner)	2.6	4.5	4.0	3.8	3.0	2.2	2.5
Cost of living	2.6	1.2	1.5	2.5	2	. .	. .
Real wages (per wage-earner)	—	3.3	2.5	1.3	1	. .	. .
Real consumption of peasants[f]	5	5	1	1	. .	.	. .
of which: Money incomes	10	7	2	1	.	. .	. . .
Romania							
Nominal wages (per wage-earner)	7	6	3	3	4.2	5.1	8.8
Cost of living[g]	1	1	—	3	. .	. .	. .
Real wages (per wage-earner)	6	5	3	—	.	. .	. .
Soviet Union							
Real incomes of population (per capita)	7	6	7	6	5	5.5	>5
Nominal wages (per wage-earner)	6.3	3.8	4.5	7.5	3.9	3.3	3
State retail trade price index	–1	–1	—	—	. .	. .	. .
Nominal incomes of wage-earners[h]	7.0	3.9	4.5	7.6	4.0	. .	. .
Real incomes of wage-earners (per wage-earner)	4	4	5	6-7 *	. .	. .	. .
Real incomes of collective farmers	8	10	9	. .	. .	. .	. .
Receipts of peasants from collective farms[i]	16	11	7	4	3.8	7.5	4.6

Sources: National statistics, plans and plan-fulfilment reports.

[a] Presumably including the material cost of state-rendered services.
[b] Industry only.
[c] Retail trade price index, inclusive of services.
[d] Including the value of unpaid services rendered to population.
[e] Excluding the value of unpaid services rendered to population.
[f] Income from agricultural activities (including that spent on non-productive investment) and increase in cash holdings.
[g] Derived from the other two series.
[h] Including social benefits and subsidized services (per wage-earner).
[i] In cash and in kind.

sioners by 5 per cent, whereas children's allowances and maternity grants were about one-third above the 1968 levels. As in other countries of the area, the main motive behind the improvements in family allowances was concern about low levels of fertility. Somewhat on the lines of the Hungarian experience, as from mid-1970 employed mothers with two or more children will qualify for paid maternity leave of up to one year with a monthly " quasi-wage " of 500 Kčs.

Due to the smaller increase in agricultural output, incomes from agricultural activities rose less in 1969 than in the preceding year and less than other categories of incomes. Trends in real incomes were affected by price increases greater than those experienced during preceding years. Indeed, the previous policy of inflexible retail prices has been criticized as too rigid, and the economic reforms foresaw some changes in price levels and patterns. However, the changes that occurred in 1968 and 1969 (mostly in the second half of 1968 and in the first half of 1969) seem to have been due as much to the excessive income expansion and increased propensity to consume as to a premeditated price policy.

Over the whole year, the cost of living was reported to have increased by 3.6 per cent, compared with an anticipated 2½-3 per cent rise. The state retail trade price index rose somewhat more, and was mainly affected by price increases of industrial goods and of public catering and services, foodstuffs showing a remarkable stability in the circumstances.[102]

Czechoslovakia: Retail trade price index

(Annual percentage changes)

	All sales in State retail trade	Food	Industrial goods	Public catering	Services
1968	1.1	0.2	1.5	2.0	1.2
1969 . . .	4.0	1.0	6.0	4.5	5.5

Sources: Statisticke prehledy, No. 2, 1968 and plan-fulfilment reports.

In mid-1969, as part of the general tightening of wage and price discipline, the incidence of " free prices " was reduced from 40 to 20 per cent[103] (their share in total transactions amounted to 28 per cent in 1968 and was planned to increase to 36 per cent in 1969), and a complete freeze was proclaimed on retail prices effective from 1 January 1970 at the levels registered in June 1969.

Czechoslovakia: Annual increments in savings and cash holdings

(Billion Kčs)

	1967	1968	1969	1969 (Plan)
Total savings and cash holdings	6.9	6.8	5.8	9.1
Savings deposits	5.6	3.9	5.0	. .
Cash holdings	1.3	2.9	0.8	. .
Savings and cash holdings as percentage of money incomes	4.0	3.5	2.7	. .

Sources: National statistics, plans and plan-fulfilment reports.

Other steps taken to re-establish the equilibrium by containing demand included some fiscal measures, restrictions on payments from the enterprise fund, linking the growth of wages to productivity changes, and a brake on investment expansion; increased rates of interest (4 per cent) paid for saving deposits requiring 12 months' withdrawal notices, introduced on 1 January 1970, may perhaps help to reduce effective demand.

The decline in the savings ratio in the last two years contributed considerably to the excessive demand on consumer markets. The increment in savings and cash holdings taken together was smaller in 1969 than in the previous year and much smaller than planned; as reported, it amounted to 2.7 per cent of the total money income, down from 4 per cent in 1967. In 1968, this total was virtually the same as in 1967, but savings rose less and cash holdings much more than in the preceding year. In 1969 this trend was reversed with a marked decrease of the increments in cash holdings and a partial recovery of the growth in savings deposits: (see table above).

The excessive growth of effective demand during the last two years in Czechoslovakia has not been matched by a corresponding expansion of domestic supplies. In 1969, supplies from home industry to consumers' markets at constant prices were 8.6 per cent above the level of the previous year and were supplemented by a large-

TABLE 22

Savings deposits

(Percentage increase from preceding year: end-year comparisons)

Country	1965	1966	1967	1968	1969
Bulgaria	14.4	17.6	19.8	11.0	. .
Czechoslovakia	14.0	10.9	14.1	8.5	. .
Eastern Germany	14.3	12.0	11.1	11.6	11
Hungary	19.6	14.9	7.0	18	20
Poland	21.0	22.5	20.5	15.4	18
Romania	. .	. .	. .	. .	14.9
Soviet Union	19.2	22.4	17.4	20.4	19
of which:					
Urban	19.3	20.9	16.6	20.2	. .
Rural	18.9	26.7	19.2	21.1	. .

Sources: National statistics and plan-fulfilment reports.

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[102] In May, steep price increases were decreed for canned meat (41 per cent), cigarettes (19 per cent), furniture (11 per cent), week-end cottages (49 per cent), sewing machines (16 per cent); radio and television fees were doubled and raised by two-thirds respectively.

[103] Only a limited number of items of luxury character (such as jewels, gold and first class hotels) remained in the " free " category at the beginning of 1970.

scale running-down of stocks during most of the year.[104] Some help might also have come from imports of consumers' goods, but certainly not on the scale registered in 1968 when they rose by about 50 per cent.

The volume of retail sales increased by about 8 per cent; at current prices, sales were 12 per cent greater than in the previous year, this global figure encompassing an 8 per cent increase for food and one of 16 per cent for industrial goods. However, the gap was much smaller in real terms, as shown by trends in relative prices described above. This relatively high demand for industrial goods (which was even more pronounced in 1968, sales of non-food items increasing by 20 per cent) was partly explained by the declining propensity to save. However, supply availabilities must also have played some role, as shortages of meat and other food items were reported. Among industrial goods, demand was not met for building materials, furniture, textiles and many durables,

TABLE 23

Volume of retail trade turnover

(Annual percentage changes)

	1965	*1966*	*1967*	*1968*	*1969 Plan*	*1969 Actual*	*1970 Plan*
Albania							
Total sales [a]	2.8	7.0	5.0	9.0	9.3	..	..
Bulgaria							
Total sales	7.9	8.6	11.6	7.5	8.2	7.9 [a]	7.7
Food	7.3	6.4	9.1	2.5	..	..	..
Public catering [a]	7.6	7.5	11.1	10.5	..	9.3	..
Non-food	8.4	10.4	13.7	11.4	..	..	..
Czechoslovakia							
Total sales [b]	5.5	5.2	5.2	13.0	..	11.9 [a]	..
Food	4.9	2.7	4.2	6.8	..	7.9 [a]	..
Public catering [a]	2.4	2.8	6.6	4.1	..	..	..
Non-food	6.2	8.5	6.4	20.4	..	16.2 [a]	..
Eastern Germany [a]							
Total sales	4.3	4.1	3.9	4.9	4.7	6.1	4.3
Food	3.6	4.3	4.3	4.6	3.6	5.3	3.6
Public catering	..	..	..	..	..	..	..
Non-food	5.1	3.9	3.4	5.3	6.1	7.3	5.1
Hungary							
Total sales	4	7	10	7	8-9	8	9
Food	3	4	8	7	4	8	8
Public catering	2	7	7	..	..	..	..
Non-food	4	10	11	8	10-12 *	8	10 *
Poland							
Total sales	8.8	6.2	7.2	7.1	6.7	..	5.5
Sales in socialist sector	8.9	6.8	6.8	7.6	..	6.3	..
Food	7.0	8.2	7.0	7.0	..	..	..
Public catering [a]	7.0	7.2	11.4	8.6	..	5.9	..
Non-food	9.4	5.6	6.9	7.6	..	..	..
Romania							
Total sales [b]	7.4	9.4	9.7	8.8	8	4.7 [a]	..
Food	5.2	5.6	7.0	6.6	..	6.0 [a]	..
Public catering	8.8	12.7	9.7	7.5	..	..	..
Non-food	7.6	12.3	12.1	10.3	..	3.5 [a]	..
Soviet Union							
Total sales [b]	9.8	8.7	9.3	8.3	7.5-8.4	7.4	6.3-7.2
Food	8.4	7.8	8.5	7.1	..	..	..
Public catering	5.1	6.6	8.5	9.0	..	9.4	..
Non-food	12.3	9.7	10.5	10.3	..	..	..

Sources: National statistics, plans and plan-fulfilment reports [a] At current prices [b] In the socialist sector.

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[104] In 1968, stocks of refrigerators declined by 55 per cent, of washing machines by 65 per cent and of a whole range of household goods and durables by some 30-40 per cent. *Hospodářské noviny*, No. 32, 1969. Complete data on 1969 developments are not yet available but some restocking at the end of the year has been reported.

including passenger-cars. Household expenditure expanded even faster on services than on purchases of goods.

As indicated earlier, one of the main preoccupations of the 1970 plan is the re-establishment of equilibrium in consumers' markets. Consequently, a relatively modest increase of 5.2 per cent in total money incomes of the population is foreseen, which should result in a 2.4 per cent growth of personal consumption. Average wages should only expand by 2.6 per cent or by one per cent in real terms. A considerable increase in personal savings is foreseen. In addition to the assistance to working mothers, already mentioned, social benefits envisaged in the forthcoming year include an increase in minimum pensions (effective from November) from 445 Kčs to 500 Kčs for single persons and from 750 Kčs to 850 Kčs for couples. Total domestic supplies of consumers' goods are planned to exceed the value of trade turnover, with the aim of restoring the levels of stocks. The plan stresses that supplies to retail trade must have priority over those to exports and to investment projects.[105]

In *Hungary*, during the three years 1966-1968 total money incomes of the population rose by more than a quarter, exercising strong pressure on supplies. It was hoped that demand could be restrained in 1969 to ease the strain on consumers' markets. However, total money incomes of the population rose by 10 per cent—the biggest increase for many years—with wage-earners and peasants benefiting about equally. Average nominal wages (including profit participation) were about 7 per cent up on the preceding year and employment was 3.5 per cent higher, both figures being significantly in excess of the annual targets; a sharp increase in payments of premia linked to enterprise results was expected as a result of the economic reform, but probably not on the scale actually experienced. Bumper crops and an excessively high rate of livestock slaughtering as a consequence of higher domestic and foreign demand contributed to a 9 per cent increase in peasant incomes.

Hungary: Gross money incomes of the population [a]

	1968 (Billions of forints)	*Annual percentage increases*			
		1966	*1967*	*1968*	*1969*
Total money incomes	160.9	8.0	7.6	8.3	10
Wages	84.8	6.3	6.3	5.7	8
Other wage-like income	10.9	12.3	19.2	17.7	ca. 50 [b]
Social benefits	16.0	18.1	9.4	7.2	..
Peasant incomes (excluding wages)	25.1	5.5	9.3	13.7	9
Income in private sectors	7.9	2.9	2.5	7.0	..
Other income	16.2	12.9	7.3	10.8	..

Sources: National statistics and plan-fulfilment reports.

[a] Including transactions within the household sector.

[b] Profit participation premia only.

Hungary: Stocks in trade

(Billion forints)

	Total	*Food*	*Textiles and clothing*	*Other industrial goods*
End 1968 . . .	25.0	3.3	9.6	12.1
End 1969 . . .	24.6	3.5	8.7	12.4

With the cost-of-living index rising by not more than some 1.5-2.0 per cent, average real wages registered an improvement of around 5 per cent (compared with 2 per cent planned). An increase in the employment ratio in the family and further progress in social benefits were no doubt responsible for the even faster increase—by 7 per cent—of per capita real incomes of wage-earners.

Some attempts have been made to take advantage of the excessive increases in incomes to adjust price levels and relatives, which had come in for some criticism in the past. However, a slight rise in the price of foodstuffs was largely due to increases (by around 6 per cent) in prices of " seasonal goods " (early fruit and vegetables) whereas a 3 per cent increase in the price of clothing was probably related to the decline in output.

The 1969 rate of expansion of industrial output (3 per cent) did not warrant the rise of incomes on the scale actually experienced. Final deliveries to the home market in constant wholesale prices increased considerably faster (by 7 per cent), but even this growth of supplies did not match the expansion of money incomes. Supplies of meat to the domestic market rose only slightly and shortages were reported during most of the year. (Procurements of animal products were somewhat lower than in 1968, reflecting a decline in output.) A large part of the increased production of foodstuffs was exported.

The domestic supply of industrial products was helped by increased imports, manufactured consumers' goods rising by 7 per cent in 1969, and by some de-stocking in trade, mainly of textile fabrics and ready-made clothing (clothing stocks were at their lowest in August, picking up in the last quarter of the year).

Retail sales increased by 8 per cent in volume and by some 10 per cent in value, matching the global rise in incomes. At constant prices, sales of foodstuffs were 8 per cent higher than in the preceding year and those of clothing and other industrial goods increased by 6 and 9 per cent respectively. According to 9 months' data, purchases of some consumer durables, such as refrigerators, motor-cycles and vacuum cleaners, rose sharply but those of television sets, radios, bicycles and washing machines declined compared with the previous year. For the second year running, sales of passenger-cars failed to expand in spite of mounting demand. Reduced supplies of furniture and building materials were also reported. There has been some improvement in the quality and assortment of consumers' goods but not on a scale that could give full satisfaction. A rise in the volume of savings deposits helped to reduce the gap between supply and effective demand.

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[105] An example is provided by a re-direction to the home market of the previously agreed export of 1.3 million pairs of shoes to the Soviet Union. *Rudé Právo*, 23 January 1970.

TABLE 24

Retail sales of selected products

(Annual percentage changes)

Commodity	Albania			Bulgaria			
	1966	*1967*	*1968*	*1966*	*1967*	*1968*	*1969*
Meat	22	2	10	12	7	–14	..
Meat products	..	..	..	11	7	–17	..
Sugar	11 *	11	14	6	8	35	..
Butter	..	..	..	12	9	–1	..
Milk	10 *	27	3	6	10	–2	..
Cheese	11 *	8	..	8	8	–23	..
Eggs	10	..	7	8	5	11	..
Fresh fruits	..	18	..	14	–1	—	..
Fresh vegetables	..	..	..	16	–4	4	..
Woollen fabrics	16 *	23	21	10	15	–1	..
Cotton fabrics				–5	—	11	..
Silk fabrics				13	7	14	..
Ready-made clothing	..	13	..	19	13	..	..
Footwear	..	..	26	15	6	5	..
Bicycles	..	..	..	..	..	..	..
Motor-cycles and scooters	..	..	..	–26	..	–27	..
Washing machines	..	..	..	6	22	14	..
Refrigerators	..	..	..	21	39	57	12
Sewing machines	..	..	..	–7	14	44	..
Vacuum cleaners	..	..	..	..	..	..	45
Watches	..	..	..	13	13	47	..
Motor-cars	..	..	..	42	46	11	..
Radios	..	..	..	7	6	5	..
Television sets	..	..	..	57	35	50	..
Furniture	..	..	..	7	20	10	9

Commodity	Czechoslovakia [a]			Eastern Germany [a]			
	1966	*1967*	*1968*	*1966*	*1967*	*1968*	*1969*
Meat	3	2	5	4	3	4	3
Meat products							
Sugar	–3	–3	6	2	–4	3	..
Butter	—	1	2	4	7	2	..
Milk	1	6	–3	—	2	9	3
Cheese	6	10	4	3	4	1	..
Eggs	–2	2	–1	–3	2	1	6
Fresh fruits	44 [b]	..	–5	44 [c]	3 [c]	–18 [c]	..
Fresh vegetables	–1	6	–10	..	..	..	..
Woollen fabrics	3	13	19	..	..	..	..
Cotton fabrics	–3	–1	34	..	..	..	..
Silk fabrics	–1	1	7	..	..	..	..
Ready-made clothing	4	—	9	..	..	..	..
Footwear	2	3	12	4	—	—	..
Bicycles	32	9	20	5	3	..	..
Motor-cycles and scooters	–25	–16	2	–7	2	2	..
Washing machines	3	12	24	–4	3	19	..
Refrigerators	15	15	10	2	14	1	..
Sewing machines	–4	..	..	29	–13	8	..
Vacuum cleaners	..	..	..	..	..	..	..
Watches	—	—	28	3	–1	23	..
Motor-cars	66	34	18	10	12	–10	..
Radios	2	16	16	28	2	–10	..
Television sets	26	–9	30	–8	–3	–19	..
Furniture	3	2	17	3	7	–5	..

TABLE 24 (*continued*)

Retail sales of selected products

(Annual percentage changes)

Commodity	Hungary				Poland [a]			
	1966	1967	1968	1969 [e]	1966	1967	1968	1969
Meat	–17	3	12	1	11	3	1	4
Meat products	–12	10	8	. .				
Sugar	6	3	–1	5	6	1	6	2
Butter	2	—	25	10	12	13	6	6
Milk	8	3	6	3	3	5	5	5
Cheese	–7	5	37	7	. .	. .	. .	. .
Eggs	5	–5	–1	1	3	1	2	6
Fresh fruits	17	12	. .	. .	49	–3	5	. .
Fresh vegetables					19	5	5	. .
Woollen fabrics	–6	4	10	17	1	–1	–3	4
Cotton fabrics	–9	–7	–19	6	12	6	4	–6
Silk fabrics	–22	—	–3	13	–2	1	–2	—
Ready-made clothing	3	6	11	. .	3	5	9	8
Footwear	2	5	4	–1	6	5	3	4
Bicycles	27	–1	40	–14	2	4	4	6
Motor-cycles and scooters	39	15	51	16	–19	—	–3	–22
Washing machines	18	–8	–2	–3	–3	–3	7	–8
Refrigerators	33	9	24	42	19	14	11	–7
Sewing machines	13	80	10	. .	–9	–8	6	2
Vacuum cleaners	–12	–2	40	16	19	4	3	–14
Watches	27	–14	36	. .	–9 [f]	10 [f]	13 [f]	–7 [f]
Motor-cars	57	32	–1	–1	3	–4	2	21
Radios	49	–4	124	–3	17	12	3	23
Television sets	10	–4	68	–43	19	–6	4	9
Furniture	7	17	2	. .	9	13	8	7

Commodity	Romania [d]				Soviet Union			
	1966	1967	1968	1969	1966	1967	1968	1969
Meat	11	5	6	2	11	11	8	–4
Meat products	15	10	11					
Sugar	6	4	5	4	5	6	3	2
Butter	6 [g]	11 [g]	13 [g]	15 [g]	–1	3	7	12
Milk	14	16	10	6	9	11	11	12
Cheese	9	8	8	13	6	3	12	16
Eggs	11	. .	. .	. .	8	9	10	8
Fresh fruits	45	. .	. .	. .	18	10	14	–5
Fresh vegetables	6	. .	. .	. .	3	12	1	–2
Woollen fabrics	9	3	4	–3	1	1	6	9
Cotton fabrics	5	3			5	4	—	
Silk fabrics	4	5			7	4	–6	
Ready-made clothing	15	13	10	—	7	10	12	9
Footwear	16	–6	4	5	11	14	10	5
Bicycles	. .	. .	. .	. .	8	1	2	—
Motor-cycles and scooters	. .	. .	. .	. .	7	—	2	2
Washing machines	5	9	9	. .	13	9	9	8
Refrigerators	10	2	18	. .	34	23	20	15
Sewing machines	1	37	16	. .	–11	–15	—	–2
Vacuum cleaners	. .	7	. .	. .	12	14	13	10
Watches	. .	. .	. .	. .	8	7	3	3
Motor-cars	. .	. .	. .	. .	7	20	7	. .
Radios	19	–8	–10	. .	–4	3	3	6
Television sets	42	2	–7	. .	19	7	15	—
Furniture	15	10	9	9	9	10	8	5

Sources: National statistics and plan-fulfilment reports.

[a] Deliveries to the retail trade network.

[b] Tropical fruits included.

[c] Tropical fruits only.

[d] Socialist sector only.

[e] Nine months.

[f] Wrist watches.

[g] Including margarine.

The excellent 1969 harvest should improve the supply of food (including that of animal products) in 1970 and this expectation (together with the growing benefits accruing from foreign trade) accounts for the planned targets for incomes and supplies in general. Real wages per wage earner are planned to rise by 2.5-3.0 per cent, and total per capita wage-earners' income by 4.5-5.5 per cent. Peasant money incomes should rise much faster than the total wage-bill (by 10 and 6 per cent respectively). A 9 per cent expansion of the value of retail sales should be adequate to cover an 8 per cent growth in total money incomes of the population. Sales of industrial goods are expected to rise somewhat faster than those of foodstuffs, at least at current prices.

For the second year running, total money incomes of the population rose in *eastern Germany* by 4.9 per cent, somewhat more than envisaged in the medium-term plans. As the size of the population remained un-

TABLE 25

Dwelling construction

	1966	*1967*	*1968*	*1969 Plan*	*1969 Actual*	*1970 Plan*
			Thousands of dwellings			
Bulgaria						
Total	43.4	42.7	42.7	..	..	..
State	11.3	10.8	12.0	..	..	..
Private and co-operative	32.1	31.9	30.7	..	..	..
Aided	14.1	13.7	12.6	..	..	..
Unaided	18.0	18.2	18.1	..	..	..
Czechoslovakia						
Total	75.5	79.3	86.6	105	83.4	..
State	16.3	14.4	15.9	..	..	..
Co-operative	39.9	44.4	47.7	..	..	..
Private	19.2	19.8	19.7	..	..	..
Eastern Germany						
Total	65.3	76.3	76.2	..	72	77
State	38.5	48.7	..	..	..	..
Co-operative	18.6	19.6	..	..	..	..
Private (aided)	8.2	8.0	..	..	..	..
Hungary						
Total	55.6	62.6	67.1	60-62	62	..
State	20.3	21.6	24.6	21.6	..	..
Private	35.3	41.0	42.5	..	..	..
Aided	25.1	30.0	29.9	..	..	..
Unaided	10.2	11.0	12.6	..	..	..
Poland						
Total	176.0	185.7	189.3	..	..	..
Urban	133.0	139.1	140.5	..	..	..
Rural	43.0	46.6	48.8	..	..	..
Socialized sector	129.4	136.0	138.8	150 *[a]	142.8	..
of which:						
State	77.8	58.7	46.7	..	..	..
Co-operative	51.6	77.3	92.1	..	98.5	..
Romania						
Total	117.3	122.1	111.7		139	..
State and co-operative	49.6	53.2	56.3	88.6	78	94.7
Private	67.7	68.9	59.4	..	..	..
			Million square metres of total space			
Soviet Union						
Total	102.1	104.5	102.1	121	102.5	116.3
Outside collective farms	81.8	84.3	83.5	..	..	..
of which:						
State and co-operative	65.9	68.7	69.3	..	65.3	68.6
State-aided and private	15.9	15.6	14.2	..	..	..
Collective farms	20.3	20.2	18.6	..	..	..

Sources: National statistics; ECE, *Annual Bulletin of Housing and Building Statistics for Europe*, 1967; plan-fulfilment reports.

[a] The area constructed was to increase by 9.4 per cent

changed[106] and there was only a very small increase in the cost of living, this figure may be taken to represent the rate of improvement in per capita real incomes of the population. No data on changes in average wages have as yet been published for 1969. In the preceding year, they rose more than 4 per cent, and this performance was probably repeated or even exceeded in 1969 as farmers' incomes could hardly have risen much in this year, given the setback in agricultural output. Part of the 4 billion marks increment in total money incomes was due to an increase in premia payments to workers and employees (by some 360 million marks) and to further expansion of social transfer payments, particularly of old-age and other pensions, which rose by 6.8 per cent, and of children's allowances, which were 5.8 per cent up on the levels of the preceding year.[107]

Some acceleration in the rate of improvement in living standards was also evidenced by the reported growth of the retail trade turnover by 6.1 per cent, which was markedly higher than the annual plan target or the rates recorded in the recent past. Moreover, there has been a welcome change in the structure of sales, those of manufactured goods rising significantly faster than foodstuffs. Even though this structural change was not as far-reaching as planned, it represented a definite improvement on past trends. But the share of manufactured goods in total retail trade is still rather low at some 43-44 per cent.

In the course of 1969, some difficulties were experienced in the supply of potatoes and vegetables to the population, but supplies of livestock products appear to have been fairly adequate, those of meat (and meat products) and of dairy products increasing by some 3 per cent.

In respect of industrial goods, the east German authorities appear to have met with increasing difficulties in planning and implementing the rapidly diversifying demand of the population. According to the plan-fulfilment report, the demand for some commodities, especially for garments from synthetic materials, children's clothing and footwear, as well as for some consumer durables, could not be fully satisfied. The bottlenecks in the supply of goods of synthetic and plastic materials appear often to have been due to arrears in the installation of new capacities.

Household stocks of consumer durables continued to improve. In 1969, two-thirds of households had a television set and nearly half had a refrigerator and a washing machine. However, waiting lists for passenger-cars are still long and there were hardly more than 12 passenger-cars per 100 households. As in other countries of the area, repair and maintenance services lag behind the supplies of consumers' goods and durables. New plans foresee the establishment of large-scale industrial service enterprises to complement or replace the present small establishments owned by private individuals or local authorities.

In 1970, per capita real incomes of the population should increase by 4 per cent; within this improvement the share of social transfer payments should go up again. Commodity supplies to the population are planned to be increased by 4.3 per cent, including an expansion of sales of foodstuffs by 3.6 per cent and of industrial goods by 5.1 per cent.

Some slowing down in the growth of household incomes also occurred in *Poland*, where per capita consumption financed from personal incomes of the population was reported to have increased by about 3 per cent in 1969. As in the past, a good part of this gain resulted from increased employment, with average real wages barely improving.

Average (net) nominal wages rose by 3.0 per cent, but this was largely offset by a 2 per cent increase in the cost of living. Judging by data for the first three quarters of the year, price increases occurred mostly in the third quarter and mainly affected foodstuffs. Price increases were particularly steep for food sold on free markets, which rose by about 10 per cent; in contrast to several preceding years, prices of services remained stable.[108]

Following the decline in agricultural production, peasants' receipts from State deliveries fell by 2.5 per cent compared with the preceding year. Diminished sales on open markets were probably offset by higher prices, as mentioned earlier, but even so peasant incomes can hardly have advanced at all. The most dynamic category of household incomes was again pensions, this being due partly to a continuous increase in the number of old-age pensioners due to demographic factors and partly to the second instalment of pension increases, announced at the beginning of 1968 and introduced at the beginning of 1969.

The total increase in the money incomes of the population can be estimated at some 6.7 per cent, the breakdown being as follows:

Poland : Gross money incomes of population

	Annual percentage changes			
	1967	*1968*	*1969*	*1969 Billion zlotys*
Total money incomes	*8.2*	*7.8*	*6-7**	*441.6*
Wages and wage-like payments	8.7	8.5	7.2	309.3
Sickness and other benefits . .	3.8	1.5	8.3	14.6
Pensions	9.5	21.1	16.4	29.3
Peasant money incomes . . .	3.2	1.4	–2.5 [a]	56.6*
Incomes in private sector outside agriculture	15.5	8.5	4.2*	32.0*

Sources: National statistics and plan-fulfilment reports.
[a] Receipts for State deliveries.

In view of the instability of consumers' markets in preceding years, some slowing down in the growth of money incomes in 1969 was not unwelcome.[109] Sales in the State retail trade rose by 7.1 per cent at current prices and by 6.3 per cent at constant prices, and those in peasant co-operatives by 7.7 per cent and 7.0 per cent respectively. Improvements in food supplies were restricted to the first three quarters of the year, when sales of meat and butter were respectively 5.8 and 7.2 per cent above the levels of the preceding year. There was, however, a marked deterioration in supplies during the fourth quarter, when sales of meat were only at the level of the preceding year and shortages of butter and animal fats appeared. Sales of ready-made clothing and of woollen yarns increased but those of other fabrics stagnated, or declined, while at the same time the demand for up-to-date models was not satisfied. There was also a marked deterioration, compared with the previous year, in the deliveries of such consumer durables as motor-cycles, washing machines, refrigerators, vacuum cleaners and watches, due partly to the lack of demand at the present quality and assortment. But sales of cars, radios and, to a lesser extent, television sets rose sharply. Supplies of coal to the population rose considerably but were nevertheless unable to match the exceptional demand generated by the severe climatic conditions of the 1968/69 winter.

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[106] Continuing a downward trend that started in 1963, the crude birth-rate fell to 14.3 per 1,000 in 1968. During this time, due to unfavourable changes in the age composition of the population, crude death-rates kept increasing to reach the level of 14.3 per 1,000 in 1968.

[107] As a pro-natalist measure, the monthly allowance for the third child was increased by 30 marks, effective from October 1969, which benefits 470 thousand families. However, children's allowances are still relatively low in eastern Germany compared with all other countries of the area except the Soviet Union.

[108] *Biuletyn statystyczny*, No. 12, 1969.

The Polish plan for 1970 assumes an increase in average wages of 2.5 per cent over 1969. Employment in the socialized sector should rise by 1.9 per cent and the total wage bill by some 4.5 per cent, or by somewhat less than the value of retail sales which should be 5.5 per cent higher than in 1969. Progress in living standards is not likely to be much faster next year among peasants, as can be judged by the rather low target for the increase in per capita consumption of population (3.3 per cent) and the expected changes in the volume of State deliveries of agricultural products.[110] Indeed, difficulties in expanding supplies of animal products seem to be largely responsible for the low income targets.

In *Romania*, gains in living standards were markedly lower in 1969 than in the preceding years. This can be largely attributed to the slow recovery of agricultural output in 1969, following the decline in 1968. In food-processing industries, annual plan targets were underfulfilled by large margins. Production targets were generally exceeded in light industry, but this was not fully reflected in an increased volume of sales, suggesting the persistence of the problem of adaptation of the structure of supply to that of demand.

Total money incomes of the population were reported to have increased by 6.1 per cent, indicating the continuation of the downward trend in the growth rate in recent years:

	Percentage increase from preceding year			
	1966	*1967*	*1968*	*1969*
Total money incomes	10.1	9.1	8.0	6.1
of which:				
Wage-earners' households .	10.5	8.9	8.0	7-8*
Peasants' households . . .	8.7	9.8	7.9	4-5*

Average nominal wages increased by 4.2 per cent in 1969 and employment outside agriculture by 3.4 per cent. A year earlier, gains in nominal wages appear to have been offset by the increase in the cost of living. Some increases in prices, particularly those of foodstuffs, also occurred in 1969 but probably on a smaller scale than previously. In any case, the increase in average real wages was certainly well short of the planned growth of 5.1 per cent. However, consumers benefited from a further 10 per cent increase in State budgetary expenditure for social and cultural purposes, which particularly affected old-age pensions and children's allowances.[111]

At current prices, the value of State retail trade rose by less than 5 per cent, somewhat less than the total money incomes of the population.[112] Sales of foodstuffs were 6 per cent above the 1968 level (partly through price increases) and those of industrial goods were 3.5 per cent higher. Deliveries of some dairy products (milk, butter and cheese) were markedly better than in 1968 but there was no increase in deliveries of meat. Judging by output data, fresh vegetables were in rather poor supply, but deliveries of fresh fruit showed a considerable improvement on 1968. There was no increase in the supply of ready-made clothing and a decline in the sales of textiles, both of which are difficult to explain in the light of expanded output. Sales of television sets and radios must have picked up again after two adverse years, but only output data are available.

Upward adjustments of wage rates are foreseen during 1970 in mining, engineering, construction, transport, trade, research, health and financial services, and average real wages should rise by as much as 8.8 per cent. Collective farmers will benefit from a further expansion of pensions and social benefit. These targets are the reflection of a rather ambitious plan for the growth of national income, agriculture and output of consumers' goods (Group B), which are expected to increase by 12, 16 and 10 per cent respectively.

The slowing down in the rate of expansion of the *Soviet* economy in 1969 was reflected to a certain extent in the rate of improvement of living standards. Thus, average nominal wages were reported to have risen by 3.9 per cent, less than in preceding years although somewhat faster than planned. The deceleration in the rate of growth of peasants' incomes was still more pronounced. Peasants' receipts from collective farms increased by only 3.8 per cent [113] (in the Ukraine by 3.4 and in Byelorussia by 6 per cent), that is less than had been planned, and much less than during the first three years of the current Five-year Plan. Even so, large gains in peasants' real incomes (from all sources) in the 1966-1968 period will almost certainly ensure the fulfilment of the Five-year Plan target.

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[109] The 1969 plan foresaw an increase in average wages by 2.2 per cent and in total incomes by 7 per cent. However, wage payments advanced faster and peasant incomes slower than planned

[110] State purchases of grain are likely to remain at the 1969 level and those of meat to decline by a few percentage points. Marked increases in the volume of deliveries are expected only for products, the output of which fell drastically in 1969, such as potatoes and sugar beetroots.

[111] The 2.1 per cent increase in total population recorded in 1969 represented a slowdown from the preceding year, but was nevertheless very high by European standards. The upsurge in the current fertility levels of the Romanian population has been mainly due to the introduction in 1966 of severe abortion laws and of restrictions on the sale of birth-control means.

[112] The difference was probably absorbed by a more than proportionate increase in the value of sales of foodstuffs outside the State trade network (due partly to price increases), and by an accelerated increase in savings, the deposits of which rose by nearly 15 per cent.

With average wages and peasants average incomes probably less than 4 per cent above the 1968 levels, the reported 5 per cent increase in per capita real income of the population might have been partly associated with an increased incidence of employment in the population.[114] The benefits accruing to wage-earners' families from the social welfare fund, which rose even faster than average wages, also contributed to the increase of per capita real income. During the first four years of the current Five-year Plan, per capita real incomes rose by around 26 per cent and the 30 per cent growth planned for 1966-1970 appears likely to be exceeded.

With the number of employed persons some 3 per cent above the average 1968 level, the total wage fund was reported to have increased by 7.4 per cent, much less than in the exceptional preceding year. (The upward revisions of basic wage rates in 1969 affected mainly workers in the construction and in the building materials industries.) Total money incomes of the population probably rose still less, reducing the pressure on supplies.

The volume of State and co-operative retail trade reached the lower limit of the planned range, showing a rise of 7.4 per cent for the year. According to half-year estimates, sales of industrial goods were closer to those of foodstuffs,[115] but final figures referring to these two categories of sales are not available at the time of reporting. Among foodstuffs, sales of meat and of fresh fruit and vegetables were below the 1968 level, but considerable improvements were registered in deliveries of fish, milk, butter and cheese.[116] Apart from television sets, bicycles and sewing machines, sales of consumer durables were above the levels in the preceding year, but for most articles the rates of improvement were distinctly slower than in the recent past. It was reported that demand was not fully met for such commodities as woollen textiles, clothing, shoes, building materials, as well as some consumer durables. Output of passenger-cars rose by only 5 per cent to nearly 300 thousand, much less than envisaged in the Five-year Plan targets.

A further expansion of consumers' services by 18 per cent, as well as a similar growth of savings deposits, helped to maintain the balance between supply and effective demand.

The 1970 targets foresee a pattern of growth of incomes broadly similar to that recorded in 1969. Average wages should increase somewhat less than in 1969 (by 3 per cent) and peasants' incomes from their work on the collective farms rather more (4.6 per cent). The expansion of employment outside collective farms should decelerate compared with earlier trends. Thus, the number of workers and employees is expected to increase by 2.3 million, or about 2.5 per cent in 1970, whereas the average annual rate of growth in the 1961-1965 period amounted to 4.4 per cent and in the 1966-1969 period to 3.4 per cent.

The volume of State and co-operative trade will be some 6-7 per cent higher than in 1969 and a significant improvement in supplies of consumer durables is envisaged. The plan also foresees a 40 per cent increase in the sales of passenger-cars. Compared with the base year of the current Five-year Plan, household stocks of consumer durables should improve as follows (per 100 households):

	1965	*1970*
Radio sets	61	71
Television sets	26	56
Washing machines	21	52
Refrigerators	11	32

Source: Mr. Baibakov's speech, *Ekonomicheskaya Gazeta,* No. 51, 1969.

Co-operative housing will be greatly encouraged in the Soviet Union in 1970. In 1969 only 6.5 million square metres of living area (or 6.3 per cent of the total) was built by housing co-operatives. It is planned to raise this figure to 9.6 million square metres in 1970. In the future, this development may provide an important item of consumers' expenditure, as it does already in several other countries of the area.

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[113] A good part of these payments must have been derived from farm profits accruing during the good agricultural year of 1968. Since 1969 was much worse for agriculture, farmers' current incomes from individual plots were probably below the previous levels.

[114] No important price movements in consumer markets were reported. As is usual in a bad agricultural year, prices of food on free markets have probably risen somewhat.

[115] *Sovetskaya Torgovlya,* 14 August 1969.

[116] However, difficulties in supplies of meat and meat products were reported, especially in large industrial centres (*Pravda's* editorial on 13 January 1970).

6. FOREIGN TRADE

(i) General features of the region's trade

Following the sharp accelerations in 1967 and 1968, the growth of the east European countries' foreign trade continued to accelerate in 1969.

As is shown below, this speeding up of trade growth occurred simultaneously with a deceleration in the growth of national income produced, with the result that the

TABLE 26

Foreign trade

Country	*Value in 1969 Million dollars*	*Annual percentage changes over previous year*				
		1967	*1968*	*1969 plan*	*1969 actual*	*1970 plan*
Bulgaria						
Exports	1 801	11.7	10.5	. .	11.5	. .
Imports	1 749	6.3	11.9	. .	−1.9	. .
National income		9.0	6.4	10.0	7.7	9.0
Czechoslovakia						
Exports	3 293	4.3	4.9	. .	9.6	6.0
Imports	3 240	–2.0	14.8	. .	5.3	4.0
National income		5.2	7.5	7.0	6.5	5.2
Eastern Germany						
Exports	4 163	7.8	9.5	10.0	9.7	13.6
Imports	4 114	2.0	3.3		21.1	
National income		5.4	5.3	6.0	5.0	6.3
Hungary						
Exports	2 075	6.8	5.2	6.7	16.0	7.0
Imports	1 928	13.4	1.5	6.7	7.0	8.0
National income		8.7	5.0	5.6	6.0	5.6
Poland						
Exports	3 144	11.2	13.1	10.1	10.0	7.1
Imports	3 210	6.0	11.7	10.6	12.5	4.9
National income		5.6	9.0	5	3.5	5.8
Romania						
Exports	1 621	17.6	5.2	11.0	10.4	17.0
Imports	1 714	27.4	4.1	9.0	6.5	6.2
National income		7.7	7.1	. .	7.3	12.0
Six east European countries						
Exports	16 097	8.9	8.3	. .	10.8	. .
Imports	15 955	6.2	7.4	. .	10.1	. .
Soviet Union						
Exports	11 655	9.1	10.2	5.7	9.6	. .
Imports	10 327	7.9	10.2		9.7	
National income		7.0	7.2	. .	6.0	6.0
Six east European countries and the Soviet Union						
Exports	27 752	9.0	9.1	. .	10.3	. .
Imports	26 282	6.8	8.5		9.9	
National income		8.0	7.4		5.5-6.0	6.0

Source: National statistics, plan-fulfilment reports, and direct communications from governments.

ratios between trade (including intra-trade) and production growth for the region as a whole increased from 1.0 in 1967 and 1.2 in 1968 to about 1.7 in 1969. However, in the three countries where the problems of external balance were particularly acute (Bulgaria, Czechoslovakia and Romania) imports grew less fast than production. In four of the six countries which published trade plans for 1969, trade growth was faster than expected, the exceptions being Albania and Romania. Despite this increase in trade dependence, eastern Europe's trade continued to grow more slowly than total world trade.

The trade experiences of the individual east European countries varied considerably. Bulgaria recorded the lowest trade growth in 1969, a 4.3 per cent increase in trade turnover, which was less than half the corresponding growth in 1968; the deceleration was, however, entirely attributable to imports, there being some increase in export growth. Czechoslovakia, Poland and the Soviet Union also had a slower growth of trade turnover in 1969 than in 1968. In Czechoslovakia, this resulted from lower import growth (after the exceptionally large rise in 1968), exports increasing almost twice as fast as in 1968. In Poland, on the other hand, export growth slowed down while import growth accelerated slightly. (In the Soviet Union imports and exports grew *pari passu.*)

The acceleration in the growth of eastern Europe's trade turnover in 1969 was consequently due to eastern Germany, Hungary and Romania. For eastern Germany, in contrast to the experience in 1967 and 1968 when export growth was substantially faster than import growth, imports in 1969 grew faster than exports; the increase in imports from western Germany was especially marked (up by 50 per cent), while exports to this country grew more moderately (13 per cent).[117] Both Hungary and Romania achieved fast export growth in 1969, in Hungary three times as fast as in 1968 and in Romania twice as fast. In Hungary this followed to a large extent from the good harvest results while other east European countries had the opposite experience. (See below.)

Judging from incomplete data (see table 27), in contrast with the two preceding years, intra-east European trade increased more slowly in 1969 than these countries' trade with the rest of the world. While trade with developed market economies, especially western Europe, increased faster in 1969 than in 1968, the most noteworthy change in the first half of 1969 was (on the basis of partner countries' trade statistics) the fast growth of imports from the developing countries after remaining at more or less the same level for four years. East European exports to the developing countries also resumed a higher growth rate after the rather modest gain in 1968.

TABLE 27

East European trade by areas of origin and destination

(Percentage change over previous year)

Area of origin for imports and of destination for exports	*Imports* 1966	1967	1968	1969	*Exports* 1966	1967	1968	1969
Centrally planned economies	0.2	8.5	10.4	. .	1.0	9.5	11.0	. .
of which:								
eastern Europe	0.6	9.6	10.8	8.5[a]	0.6	9.6	10.8	8.5[a]
Developed market economies	14.5	7.9	6.7	8.6[b]	18.0	8.0	6.7	9.8[b]
of which:								
western Europe[c].	13	17	8	12[d]	13	4	6	12[d]
Developing countries . . .	1.1	−3.7	3.8	13.3[b]	7.2	9.4	3.3	8.0[b]
World	4.8	6.8	8.5	9.9	6.0	9.0	9.1	10.3

Source: United Nations, *Monthly Bulletin of Statistics*, special tables in June and December issues; national statistics of east European countries for their trade turnover in 1969 and west European national statistics for trade between eastern and western Europe.

[a] Assumed on the basis of incomplete information on the remaining trade flows.

[b] January-June.

[c] According to west European trade statistics.

[d] January-September.

Changes in the broad geographical composition of the individual east European countries' trade between 1968 and 1969 were as follows. The stagnation in total Bulgarian imports in 1969 reflected a sharp deceleration in imports from socialist countries (eastern Europe plus Yugoslavia, Cuba and Asian centrally planned economies) and an absolute decline in imports from all other countries, imports from western Europe declining for the third year running. (See text table below.) The slight acceleration of Bulgarian exports related to socialist countries, exports to other countries increasing very moderately.

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[117] Data covering 11 months.

– Trade of east European countries with western Europe according to west European statistics

(Percentage changes over corresponding period previous year)

	Exports c.i.f. [a]			*Imports f.o.b.* [b]		
	1967	*1968*	*January-Sept. 1969*	*1967*	*1968*	*January-Sept. 1969*
Bulgaria	–7	8	3	–5	–6	–10
Czechoslovakia	4	10	22	–13	19	19
Eastern Germany [c] . .	—	5	15	–5	–14	4
Hungary	3	1	25	14	–2	15
Poland	–4	6	10	13	4	11
Romania	21	2	8	63	–1	–4
Soviet Union	7	7	8	34	20	21
Total (including Albania)	4	6	12	17	8	12

[a] West European imports.
[b] West European exports.
[c] Excluding trade between eastern and western Germany.

The deceleration of Czechoslovakia's import growth in 1969 related largely to deliveries from the socialist countries although imports from the rest of the world also increased more slowly than in 1968; however, there was no deceleration in Czechoslovak import growth from western Europe in the first three quarters of the year. The acceleration of Czechoslovak export growth related more to the market than to the socialist countries; exports to western Europe increased more than twice as fast in 1969 as in 1968. Eastern Germany and Hungary, too, increased trade with socialist countries less fast than with the others—developed and developing market economies—and notably with western Europe (eastern Germany's trade with western Germany is, of course, included). In fact, in Hungary the acceleration in export growth in 1969 was entirely attributable to trade with market economies, especially with western Europe, and the acceleration of Hungary's import growth was also heavily concentrated on these countries. It would appear that the Soviet Union's imports increased faster from market economies than from the socialist countries. According to west European trade statistics, Soviet imports from western Europe in 1969, for the third year running, increased at a very high rate (by about 20 per cent, the same rate as in 1968; in 1967 the growth had been even higher). On the other hand, Soviet exports to western Europe increased in 1969 by 8 per cent, about the same rate as in 1967 and 1968. As a result of this development, in 1969 for the first time the Soviet Union incurred a deficit (on an approximate *f.o.b.-f.o.b.* valuation) in its trade with western Europe.

Poland and Romania experienced a faster increase in their trade with socialist than with market countries. In Poland the difference was not big, however, and in Romania (and also in Bulgaria) the difference in the case of imports reflects an adjustment to a more normal level of imports from western Europe after a doubling of these imports in two years (in Bulgaria between 1964 and 1966, in Romania between 1965 and 1967). Despite the recent developments both countries incurred heavy deficits (on an approximate *f.o.b.-f.o.b.* valuation) in their trade with western Europe in 1969.

As eastern Europe's imports from and exports to western Europe in 1969 increased at about the same rate, there was no significant change in its combined trade deficit. According to east European sources, this deficit for the two years 1967 and 1968 amounted to almost $800 million; according to west European trade statistics (imports reduced by 10 per cent to give an approximate *f.o.b.* valuation) it amounted to $760 million. West European trade statistics, covering less than the full year, indicate that the deficit in 1969 will be close to $400 million. Only Czechoslovakia and eastern Germany among the east European countries achieved an export surplus in trade with western Europe. However, the data taken from west European sources exclude trade between eastern and western Germany; in 1969 eastern Germany incurred a heavy deficit in trade with western Germany, almost offsetting the surplus in trade with the other west European countries.

These changes in the regional flows may be explained by a number of factors. First, world market prices increased in 1969 and this may have affected the value of east-west trade flows more than that of intra-east flows. The expansion in west European demand being particularly strong in manufactures, it is not surprising that Czechoslovakia and eastern Germany, in whose exports to western Europe manufactures account for more than half, recorded a fast growth of exports to western Europe. The even steeper increase in Hungarian exports to western Europe was accounted for by manufactures as well as agricultural products; the sharp rise in the latter partly reflected replacement of Bulgarian, Polish and Romanian deliveries (these countries suffering harvest failures in 1969).

The high rates of growth recorded by some east European countries in their exports to western Europe in 1969 indicate a relatively high elasticity of supply, particularly since no significant difficulties seem to have been experienced in most countries in fulfilling bilateral trade agreements with CMEA partners. Early in the year Czechoslovakia was not exporting to the Soviet Union and to some other trade partners according to the plan, but measures taken subsequently have helped gradually to overcome this problem. Where decision-making concerning production and foreign trade has been decentralized to a considerable extent, economic instruments (e.g. conversion rates translating foreign exchange prices into domestic prices and vice versa, indirect taxes and subsidies and deposit schemes) have been used to guide exports and imports in accordance with bilateral trade agreements and economic plans.

Under the auspices of the CMEA, increasing attention is being given to problems of co-operation and specialization among member countries. The 23rd CMEA Session, held in Moscow in April 1969, identified the following main tasks of intra-area economic, scientific and technological co-operation and referred a number of specific recommendations to expert groups for further study and elaboration:

(*a*) A general aim will be to promote the " extensive development of ties between ministries, economic bodies, firms, individual enterprises and other organizations of the interested countries ". Thus commercial contracts concerning specialization and co-operation can now also be concluded directly between suppliers and customers;

(*b*) co-ordination of five-year plans is to be supplemented by " the co-ordination of plans for longer periods and with the joint preparation by the interested countries of projections for major sectors of the economy, science and technology ";

(*c*) in selected sectors of manufacturing industry " interested countries will conduct joint planning and set up inter-State industrial, trade, scientific and technical organizations ". Thus, future co-ordinative activity may cover the entire chain of new production and distribution, starting with research and ending with exchange of goods.[118]

According to other decisions taken at the 23rd Session of the CMEA, the mutual trade of member countries " should be conducted as before, on the basis of five-year trade agreements which may be specified and supplemented by annual protocols on commodity turnover ". As a general rule " modified " world prices based on the 1960-1964 period will be applied, but—as in the past—specific " contract prices " will be negotiated between trading partners. Further work is to be undertaken with a view to improving the payments system, including the extension of the activities of the International Bank for Economic Co-operation, and agreement has been reached on the establishment of an Investment Bank for the purpose of financing common projects and other capital intensive undertakings arising from the co-ordination of national plans. Two types of proposals have been made for immediate measures to improve the payments system. Some experts recommend reliance on relatively high and differentiated interest rates on both debtor and creditor accounts as an instrument for reducing imbalances in the CMEA clearing. Others suggest partial settlement in gold or convertible currency of a certain percentage of unsettled balances.[119]

Trade forecasts for 1970 have been published by five countries (see table 26). A slackening in the rate of growth of over-all trade is expected in Czechoslovakia (both for exports and imports), Hungary (a sharp deceleration in export rates but a slight speeding-up of import rates) and Poland (an especially sharp deceleration in imports but also a substantial one in exports). Eastern Germany, which achieved a high rate of trade growth in 1969, expects to maintain that rate in 1970. Romania plans a sharp increase in export growth and an almost unchanged rate of import growth. Neither Bulgaria nor the Soviet Union have made public their trade plans for 1970. The former country, however, plans for faster output growth in 1970 than in 1969; since much of the acceleration is likely to accrue from a recovery in agricultural output, this should permit a higher growth of exports in 1970, as in the case of Romania.

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[118] These quotations are from an information document submitted by the CMEA secretariat to the Eighteenth Session of the ECE Committee on the Development of Trade.

[119] See, for example, *Ekonomicheskaya gazeta*, No. 1, 1970 and *Finance a uver*, No. 8, 1969.

(ii) Review by countries

In *Bulgaria* the expectation of achieving an export surplus at a high level of trade turnover in 1969 was thwarted by the low agricultural output which affected exports of agricultural products, in particular to western Europe. Judging from data covering the first nine months of 1969, a small export surplus was nevertheless achieved by a decline in imports.

As the text-table below shows, the deceleration in import growth from 9.5 per cent in 1968 to virtually zero in 1969 was concentrated on intermediate produits, reflecting *inter alia* higher domestic supplies of steel than in 1968. Imports of manufactured consumers' goods increased at a much reduced rate in 1969, but these goods account for a very small proportion of total imports (about 5 per cent only in 1963-1967). The stagnation of machinery imports in the past two years was associated with a decline in fixed investment from the high level reached in 1967.

The rapid increase in engineering output was reflected in the accelerated expansion of exports of machinery, but was at least partly responsible for a stagnation in exports of intermediate products. The increase in exports of machinery in 1969 was directed overwhelmingly to socialist countries.

Bulgaria's trade: percentage changes in January-September over corresponding period of previous year

	Imports		*Exports*	
	1968	*1969*	*1968*	*1969*
Total	9.5	0.3	12.4	13.0
of which:				
Machinery	0.2	–0.7	7.0	32.5
Intermediate products	13.4	2.5	19.0	–0.1
Food	27.9	23.0	9.2	8.2
Manufactured consumers' goods	51.6	14.1	20.5	13.3
To:				
Socialist countries [a]	14.9	4.2	12.4	16.0
All other countries	5.4	–13.3	12.7	1.9

Source: National statistics.

[a] Including Yugoslavia, Cuba and Asian centrally planned economies.

In *Czechoslovakia*, which in 1968 had incurred a trade deficit, policy was in the course of 1969 changed to restricting the growth of domestic demand. As a result exports grew, particularly in the second half of the year, faster than imports, and the year closed with a small trade surplus of $53 million (the 1968 deficit had been $72 million). A large proportion of this improvement was in trade with western Europe. Judging from west European trade statistics covering the first nine months only, Czechoslovak imports from that region continued to increase at the same high rate (19 per cent) as in 1968, while there was a sharp acceleration in export growth. As a result the Czechoslovak trade deficit (on an approximate *f.o.b.-f.o.b.* valuation) with western Europe of some $45 million in 1968 was converted into a surplus of some $10-20 million in 1969. Trade with developing countries resulted in 1969, as in earlier years, in a substantial export surplus, largely reflecting exports of machinery and equipment on credit, in some cases refinanced in western Europe. Despite a slightly faster increase in exports to, than in imports from, socialist countries, Czechoslovakia's deficit in this trade in 1969 was not much less than in 1968. Thus Czechoslovakia continued as in 1968 to draw on assets earlier accumulated in eastern Europe, but an increase in short-term liabilities with this area was also recorded.

Romania's export growth rate also doubled in 1969. The acceleration of import growth was more modest, leading to a reduction in the trade deficit from $140 million in 1968 to $93 million in 1969. Trade expanded mainly with CMEA countries. It is reported that machinery, chemicals (especially petrochemicals), wood products and construction materials showed the greatest export growth, while the fastest expansion in imports occurred in complete industrial installations, ores and metals, cotton and hides.

As in Romania, the *Hungarian* trade balance improved through a much faster expansion of exports than of imports; the 1968 deficit had been relatively small and a surplus of almost $150 million was recorded for 1969. Exports of fuels, intermediate products and food increased much faster than in 1968 whereas the growth rate of exports of machinery and manufactured consumers' goods slowed down. A good harvest and an accelerated slaughtering of animals, induced by high export prices in terms of domestic currency, greatly helped exports of food products in 1969 (in 1968 such exports had fallen slightly). Imports of intermediate goods increased at a slower rate than in 1968. Imports of all other major groups of products, but especially fuels, increased in 1969. Much of the expansion of imports of machinery and food products represented a recovery of ground lost in 1968. The largest contribution to export growth came from sales to developed market economies (after declining in 1968); exports to socialist countries increased considerably less fast, by 10 per cent as in 1968. (See text-table below.)

A number of measures have been taken in the past two years to improve the trade balance; they were especially directed to counteracting any adverse effect that might have arisen from the economic reform which abolished mandatory import and export plans. As reported in the last SURVEY, internal conversion rates and customs duties raised the profitability of exports relative to sales on the domestic market while restricting effective demand for imports. In 1969 these measures were supplemented by selective credits and deposit schemes. Domestic demand pressure was partly reduced by destocking.

Percentage changes in Hungary's trade

	Imports		*Exports*	
	1968	*1969*	*1968*	*1969*
Total	2	7	5	16
of which:				
Energy material.	6	11	14	42
Intermediate products	10	5	—	26
Machinery and equipment . .	–14	8	15	7
Manufactured consumers' goods	3	7	9	8
Food	–5	9	–3	26
To: Socialist countries	4	6	10	10
All other countries	–5	9	–6	32

Source: National statistics.

Eastern Germany recorded a relatively large trade surplus in 1968. In 1969, exports and imports combined rose twice as fast as in the preceding year. The plan-fulfilment report contains no information on the breakdown between imports and exports but a direct communication from the east German Government shows that the rate of growth of imports exceeded that of exports, and that the trade surplus declined considerably. The increasing emphasis on concentration and specialization in production seems to have resulted in larger imports of equipment for automation and rationalization purposes. The expansion of exports of engineering goods continued, as indicated by the acceleration in the growth of output of such goods in 1969.

The faster growth of foreign trade was due primarily to trade with developed and developing market economies, which increased by 30 and 26 per cent respectively;

Percentage changes in Poland's trade

	Exports		*Imports*	
	1968	*1969*	*1968*	*1969*
Total	13.1	10.0	11.7	12.5
of which:				
Machinery	16.0	16.3	4.7	15.9
Intermediate products	13.3	9.8	9.4	11.9
Foodstuffs	2.6	–4.6	11.4	4.3
Manufactured consumers' goods	16.7	8.8	10.9	13.6
To:				
CMEA countries	17.0	10.0	5.5	14.9
All developed western countries	8.4	6.5	8.6	7.9
of which:				
Western Europe	8.8	6.4	11.4	8.3
Developing countries	1.0	15.6	17.9	38.7

in 1967 and 1968 this trade had stagnated. Eastern Germany benefited greatly from the boom conditions in western Europe and the continued liberalization of imports into that area. By contrast, trade turnover with socialist countries grew at a reduced rate, by 7.7 per cent as compared with 9.4 per cent in 1968.

Poland achieved an over-all trade surplus in 1968, although trade with western Europe resulted in a deficit of $81 million. In 1969 imports increased slightly faster than in 1968, while export growth, although remaining high, slowed down, and a small import surplus emerged in 1969. The import expansion was attributable to trade with CMEA partner countries and consisted primarily of machinery, followed by manufactured consumers' goods and intermediate products. Imports of foodstuffs increased less in 1969 than in 1968 although agricultural output declined. The slowing down in export growth, which affected all major commodity groups (exports of foodstuffs actually declined) except machinery, was accounted for by exports to the CMEA and to developed market economies, partly due to the bad agricultural year, which prevented Poland from sharing in the rapid growth of meat exports to the West.

7. RECENT CHANGES IN INSTITUTIONS AND POLICIES FOR TECHNICAL PROGRESS

Among the objectives and principles underlying the economic reform policies adopted by the governments of east European countries and the Soviet Union during recent years, the concept of economic efficiency has invariably been one of the policy-makers' central guidelines. The stressing of this concept is entirely in keeping with the constraints dictated by the present phase of economic development which generally characterizes these countries. Having in the main completed successfully the stage during which the accent was put on high rates of economic growth and accelerated industrialization, the countries of the region are now increasingly faced with qualitative aspects of economic and social development. Consequently, the emphasis in economic policies and planning has been shifted towards a more complex approach to development targets and objectives, with increasing attention focused on the assessment of differential factor costs, comparative levels of labour productivity and quality requirements for the items produced.

The general aims of the reforms have been, accordingly, to increase initiative and responsibility at lower levels of decision-making, and to promote methods of economic accounting and planning conducive to the full assessment of gains and costs of economic transactions. Price reforms have been undertaken in most countries of the region and there is a tendency towards reducing the emphasis on global output and on the number of mandatory targets in planning, to consider the economic results achieved by an enterprise as a major indicator of its success and to link incentives to management and labour to this indicator.

These changes have been associated with an ever-sharpening awareness of the importance of the planned development of science and technology as a means of achieving major economic and social objectives. If, indeed, the decisive role of science as a production factor has repeatedly been stressed as a tenet of the economic philosophy adhered to by the socialist countries, it is mainly in recent years that governments in the region have undertaken comprehensive measures with a view to heightening decisively the degree of economic efficiency in scientific research and industrial development activities.

These measures, fairly varied in scope and nature, and linked with the more general framework of economic reforms, will be reviewed here under three main headings: (i) changes in the planning and organization of R and D activities; (ii) the economic incentives devised in order to encourage the introduction, by enterprises and their associations, of technological innovations into productive processes; and (iii) the financial inputs into R and D.

The purpose of this section is to provide information on relevant changes in institutions, planning methods and policy instruments. It is still too early to assess the actual and/or potential impact of these changes on the pace of technical progress.

(i) Changes in the planning and organization of R and D activities

Criticisms have been frequently levelled, in the countries of the region, against excessive compartmentalization and duplication of research efforts, as well as against the low degree of efficiency in bringing research results to practical use, with concomitant long time-spans from the inception of research and development to eventual application. It was realized that decisive steps had to be taken in order to harness the national research potentials more effectively to economic and social development.

Thus, the economic reforms brought with them far-reaching reorganizations of decision-making bodies and changes of planning methods in the field of scientific research and industrial development. These reorganizations may be roughly characterized by two parallel trends:

(*a*) A tendency towards more precisely defined and generally broadened competences of the central planning and policy-making bodies;

(*b*) A growing delegation of responsibility to medium-level planning and managing organs, as well as to scientific institutions and enterprises with regard to R and D.

These two trends may appear to be divergent. A closer analysis reveals that they are, in fact, complementary and simply reflect simultaneous needs for better co-ordination of R and D policies, coupled with more flexibility and efficiency in their implementation.

Major institutional changes

An important and typical development in this respect was the reorganization of top-level bodies responsible for science policy and technological progress. In the Soviet Union, for instance, the former State Committee for the Co-ordination of Scientific Research was transformed in 1966 into the State Committee for Science and Technology. Whereas the former body co-ordinated R and D activities of the regional economic councils *(sovnarkhozy)* mainly through interventions of a general administrative character, the new State Committee exercises its functions under conditions where the all-Union ministries have full operational responsibility for R and D conducted in their respective branches. It is entrusted with mapping out the essential prospective courses in the development of science and technology and with the organization of inter-branch research. The new Committee has, thus, an important co-ordinating role, particularly in the fields of interdepartmental and interdisciplinary research.[120] This role is further enhanced by the competence of the Committee to operate redistributions of R and D funds among the ministries. Simultaneously its functions have shifted from direct management and control to policy-making and supervising. As a sign of its increased authority, the Committee was transformed in 1965 from a Union-Republican body into a Federal organ, without counterparts in the republics.

A different development took place in Bulgaria where the State Council for Science at the Council of Ministers, having only co-ordinating functions in regard to fundamental science, was replaced around 1962, in connexion with the elaboration of the new system of planning and management by the State Committee for Science and Technical Progress, as the most important policy-making body in the field of science and technology. This Committee has a decisive say on the main guidelines of applied and, to a high degree, also of fundamental research.

In Romania, the National Commission for Scientific Research, composed of Ministers and leading scientists, is the main co-ordinating body in the field of science policy. It is, however, mainly concerned with technology and applied rather than with pure science. The Commission, *inter alia*, advises the Ministry of Finance on the budgets of research institutions. It was mainly responsible for setting up the first medium-term programme for scientific research, for the period 1966-1970.

In Hungary, the Council of Ministers has formed a Commission for Science Policy, headed by one of the Deputy Prime Ministers, which consists of Ministers and outstanding scientists. The Commission reports directly to the Council of Ministers and prepares recommendations for top-level decision-making. In working out its proposals the Commission is assisted by the Hungarian Academy of Sciences and by the National Office for Technological Development, which is directly engaged in guiding and co-ordinating industrial research and development, with particular emphasis on fostering the application of technological innovation in production.

The set-up is somewhat different in eastern Germany. Since 1967, the Ministry for Science and Technology, which superseded a State Secretariat with comparable terms of reference, is the supreme co-ordinating body in the field of R and D; in fulfilling its task, it is assisted by a National Research Council and an elaborate system of expert committees, grouping eminent scientists and representatives of academies as well as of industrial research institutions.

In Czechoslovakia, too, the Ministry for Technology is responsible for elaborating principles and goals of the technological policy of the State and for central co-ordination of R and D activities.

A significant role is played in this respect in the countries of the region by the National Academies of Sciences. As a rule, the Presidia of the Academies take an active part in the elaboration of the guidelines of science policy, but they are more particularly responsible for the co-ordination of fundamental research, especially in the fields of natural and human sciences.

The third important partner in the formulation of national science policies in each country is the central planning organ of the government, which is mainly responsible for the integration of the plans for the development of science and technology with the over-all economic plans (see below).

These three central co-ordinating bodies, i.e. the State Committee for Science and Technology (or Ministry of Technology), the Academy (or Academies) of Sciences and the State Planning Commission, are directly responsible and subordinated to the Council of Ministers (in which they have high-level representatives).[121] The co-ordination between the three organs takes functional as well as operational forms. Thus, for example, the Vice-Chairman of the Soviet State Planning Commission *(Gosplan)* and the President of the USSR Academy of Sciences are members of the General Assembly of the State Committee for Science and Technology, which is its supreme decision-making body. Likewise, the governing body of the Bulgarian State Committee for Science and Technical Progress includes, within its membership, the Charmain of the State Planning Committee as well as the presidents of the Bulgarian Academy of Sciences and of the Academy of Agricultural Sciences.

Below these supreme bodies, it is possible to distinguish roughly three levels of bodies and organizations active in the field of science and technology:

(*a*) The ministries—in particular the industrial ministries, as well as some non-industrial ones (for instance, the Ministries of Health and of Education)—are the main co-ordinators of R and D activities within a more narrowly defined sector of the national economy and/or of the social services; they are directly responsible, as a rule, for the planning and over-all management of research in their branch or department.

(*b*) The economic associations or "trusts", grouping and controlling enterprises and industrial research institutes, dispose as a rule of relatively important resources in R and D specialists, equipment and funds, allowing them to play a significant role in conducting and co-ordinating research, particularly in the field of technological projects, applied research and testing-design work.[122] They are thus in the position of multiplying the R and D potential of the individual enterprises and, in particular, of assisting small enterprises unable to conduct effectively their own research. They constitute an important link in the chain of planning and managing production and technological development.

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[120] The Committee is, moreover, in charge of the dissemination of scientific and technological information throughout the country, as well as of carrying out scientific and technological co-operation with foreign countries.

[121] In Bulgaria, since 1967 the Academies of Sciences have not been directly responsible or subordinated to the Council of Ministers. The Academies are linked to the Council of Ministers through the State Committee for Science and Technical Progress (for the Academy of Sciences) and through the Ministry of Agriculture (for the Academy of Agricultural Sciences).

(*c*) The enterprises and the industrial research establishments themselves as well as project and design centres. It is to be noted that some larger industrial enterprises have their own, often important, R and D units, engaged more particularly in the solution of technological problems linked with their own production processes.

As for the institutes for fundamental research, they are mostly affiliated with the Academies of Sciences.

Changes in planning methods

The impact of new concepts introduced in the wake of the reforms may best be appreciated at the point of introduction of development plans of science and technology into the framework of general socio-economic planning.

A typical example of increased concern for scientific research and development may be found in the creation, within the USSR *Gosplan*, of a new department entrusted with the task of planning the introduction of new technologies into production processes. The plan for science and technology now constitutes an integral part of the Five-year State Plan for the development of the national economy of the USSR and comprises tasks for the solution of the main scientific and technical problems, as well as plans for the introduction of technological innovation into the economy, for the financing of scientific research and for the training of scientific personnel.[123]

It is worth noting in this context that other countries of the region, such as Bulgaria, Czechoslovakia and Poland, which from the second half of the 1950s had separate State plans for science and technology, proceeded to integrate them into general economic plans, thus further emphasizing the importance of research and new technology for economic development.

At the same time, substantial modifications were introduced into concepts and methods of centralized planning with regard to research and development activities. Eastern Germany offers a particularly interesting example in this respect. The " Principles of the New Economic System ", published in 1963,[124] which outlined the programme of the economic reform, had already stressed the necessity of a systematic development of science and technology as an important prerequisite of intensive economic growth. In the following years, the actual reform measures had concentrated primarily on such essential preparatory moves as the price reform and the implementation of a system of economic levers, designed to release the initiative and inherent potential of the basic economic agents. Conditions were thus being created permitting more flexible and efficient methods of planning and management.

A comprehensive programme of reforms in planning and implementation techniques was presented in 1968 for the two-year period 1969-1970,[125] aiming at accelerating the development of large-scale science-intensive modern production forces. A series of measures was envisaged in order to concentrate a large share of available economic resources on what was declared to constitute " structurally important targets ".[126]

Thus, the size of enterprises in key branches is being enlarged, either through the creation of combinates or through a looser variant of vertical integration of enterprises into " co-operative chains " under leading final producers. This measure is more fundamental than might appear at first sight, as these newly formed conglomerates are often taken out of the existing associations (VVBs) and subordinated directly to the Council of Ministers. Thus, the existing hierarchical management structures are bypassed and new, more direct, decision-making channels are set up.

Such a reorganization amounts to a selective centralization of management processes in the key branches, designed to be the dynamic spearheads of over-all economic growth; concurrently, it is intended to confer more flexibility to policy-makers' decisions with regard to the selective development of these sectors, which are given priority treatment in the allocation of investment funds and highly qualified manpower.

Such a concentration of planning activities in structurally important projects has led to a broadening of the functions and terms of reference of the central organs of government in respect of science and technology. In order to endow the policy-makers with sets of options in their elaboration of comprehensive development programmes, the preparation of detailed alternative proposals for branch developments is requested from the Ministry of Science and Technology. Moreover, because of the far-reaching implications of any specific decisions made at the highest level, the authorities are endeavouring to ensure that the measures decided upon are implemented within planned time-limits and material balances, so as to avoid disturbances in other sectors of the national economy.

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[122] It is noteworthy in this respect that a Decree of the Central Committee of the Communist Party of the Soviet Union and of the USSR Council of Ministers, of 23 October 1968, on the reorganization of the scientific research network, established new, specialized associations grouping factories with industrial research establishments, and designed to promote the solution of R and D problems of paramount importance to the development of branches, in contrast to associations of enterprises whose research is predominantly production-oriented.

The first of these new associations, founded in Leningrad in 1969, includes a leading research institute, an important organization for projects in technological engineering and two large industrial enterprises. (See *Izvestia*, 11 January 1970.)

[123] For further reference, see the paper presented by the Soviet Government to the Fifth Meeting of Senior Economic Advisers to ECE Governments, under the title: " General Strategy for Resource Allocation at the National Level ", in *Policies and Means of Promoting Technical Progress*, New York 1968, pp. 57 and ff.

[124] See *Richtlinie für das neue ökonomische System der Planung und Leitung der Volkswirtschaft*, Berlin 1963.

[125] In a decree of 5 July 1968. See GBL, Part II, No. 66.

[126] Although the nomenclature of structurally important projects has not been published, it seems possible, on the basis of accessible information, to classify them tentatively into three main groups:

(i) Products, or technologies, required for the rationalization and automation of production processes, such as electronic data-processing equipment, automated and computer-controlled processing systems, integrated information and communication systems, scientific precision instruments, container transport equipment, etc.;

(ii) Products leading to cost-saving (and/or foreign exchange saving) substitution of materials in the processing industries, e.g. plastics, synthetic fibres, petrochemical products and light building materials;

(iii) Products conducive to improvements in modern processing technologies, such as surface-treated steel, aluminium profiles, technical glass products and semi-conductors.

The main objective of this new system of planning in the key sectors is to provide for their rapid technological development, with emphasis on automated systems control, electronic data-processing and modern management techniques. Official statements and declarations, made in 1969 by east German authorities, have therefore frequently stressed the need for the organization of large-scale research centres, directly linked with the combinates and responsible for project-oriented research and technological innovation.

Measures are being taken, accordingly, for the establishment in 1970 of 16 large-scale research centres within industrial combinates, under the direct authority of the Council of Ministers. These centres will be entrusted with the whole gamut of research activities required for successful technological innovations, from inception to applied technology and final use of the new products in accordance with the principle of " complex planning " which is emerging with regard to industrial research and development.

The new concept of planning R and D as an integrated complex, so as to ensure rapid and efficient application of the best available technologies in production processes, has been increasingly accepted by the authorities in the countries of the region. It may, in fact, be said to constitute one of the guidelines of the economic reform programmes.

In the Soviet Union the practice of integral planning of the over-all process of R and D, introduced in 1966 (with the Five-year Plan for 1966-1970), grew out of the concern over the organizational separation of the network of research institutes from the economy. One of the steps taken to bridge this gap had been the placing of almost all research establishments in industry under direct control of ministries. All-Union ministries were set up for those branches (such as the engineering industry) where centralized management on a country-wide scale was deemed necessary for rapid technological progress. Less science-intensive branches were placed under Union-Republican organs. Ministries thus acquired important functions in the complex planning of R and D in their branches, including the distribution of financial and material resources for research activities. The reorganization went further, however. It is significant that a number of research establishments, which hitherto had enjoyed an autonomous status under direct ministerial control, were incorporated into some larger enterprises (often at the outset better equipped for research and industrial testing purposes than the average specialized R and D institution). A double objective was thus pursued: (*a*) to increase the efficiency of industrial research and development by a concentration of R and D potentials; and (*b*) to create favourable conditions for the introduction of innovations into industrial processes through the elimination of possible institutional and communications barriers.

A similar approach was also taken by other countries of the region. Bulgaria, in particular, placed increasing emphasis on the necessities of centralization and concentration as a prerequisite for intensive growth.[127] In the process of implementation of the new system of planning and management, the decision-making power of the ministries over the so-called economic " trusts " was reinforced; a similar and even more pronounced evolution characterized the decision-making power of the trusts with regard to the enterprises included in their system. In the field of R and D, it is intended to create powerful scientific organizations which should be able to conduct integral research processes, including the introduction of innovations into production. In a sense, this conception seems to be a reaction to the existing applied research set-up, in which topic-planning is to some extent in the province of scientific institutions. Although the central authorities' attempt to achieve a measure of global control over the variety of selected topics led to the creation of co-ordinating centres and councils,[128] it is now felt that these bodies could not muster sufficient influence to grapple effectively with the task of harmonizing the plans of individual scientific organizations within the guidelines of the State plan.

A similar development is under way in Czechoslovakia. In the earlier years of the economic reform, with the attempt to achieve closer links between the research institutions and the enterprises, resources for R and D and qualified research manpower were often allotted to some of the smaller enterprises and plants, where the efforts were frequently linked too closely to the immediate and relatively narrow problems of the production unit. Now it is felt that a concentration of financial, material and human resources at the level of the associations could help in solving crucial research and development problems of the entire branch.[129]

The National Office for Technological Development in Hungary is exerting its influence in organizing a concentration of research and development efforts through co-ordination of tasks rather than through amalgamating the institutes themselves.

In Poland too it was felt that, in spite of the numerous important results achieved by the scientific and technological centres, the past period was characterized, for example in heavy industry, by a squandering of research efforts on minor projects and current production problems, at the expense of research of basic importance for the further development of industry and the modernization of production. Particular attention was therefore attached to the concentration of resources on selected essential research topics. At the same time, however, efforts were made to expand further the R and D potential of the factories.[130]

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[127] A very clear stand on this issue was taken, for example, by a Plenum of the Bulgarian Communist Party in September 1969.

[128] There are five co-ordinating centres: the State Committee for Science and Technical Progress (as supreme co-ordinating body), the Academy of Sciences (in the field of natural and social sciences), the Academy of Agricultural Sciences, the Ministry of Public Health and the Ministry of Construction and Architecture. These centres are assisted by about 80 co-ordinating councils which specialize in the various scientific disciplines.

[129] *Rudé Právo*, 28 November 1969.

An important new feature of science policy has been the incorporation of technological forecasting in the planning criteria of R and D. In 1968, the Soviet Union introduced the elaboration of long-term scientific and technical forecasts touching the main problems of the national economy, as a prerequisite for industrial research and development planning.[131]

On the basis of these forecasts it was envisaged that long-term plans for enterprises and groups of products as well as future patterns of equipment would be worked out, taking into account new technological processes. They are intended to ensure at the outset a higher technical level for the newly designed enterprises. The forecasts are also supposed to provide guidelines for a long-term policy of investment funds and material resource allocation which would provide for a faster introduction and spreading of new technologies. The importance of this last point stems from the fact that in a given year the bulk of investment expenditure is related to the completion of previously initiated projects, while only a small part is available for new projects. The forecasts should provide a basis for resource allocation designed to promote technological shifts in production by increasing investment in new branches and/or products at the expense of investment in branches or products based on technologies nearing the critical obsolescence level.[132]

It is felt, however, that scientific and technological forecasting still presents many unsolved problems. In particular, these include the question of reliability of forecasts, in rapidly changing technological structures and environments, as well as the development of systems of indicators through which a forecast for science and/or technology may be correlated with forecasts of economic development.

In the Soviet Union, the practical study of long-term prospects for scientific and technological progress is organized by the State Committee for Science and Technology in the case of forecasts for applied science and technology, and by the Academy of Sciences with regard to forecasts in the field of fundamental sciences. Past and current forecasting projects encompass such topics as the determination of basic trends in the comprehensive application of chemical processes to agriculture; studies of the optimum proportions in the production and consumption of petroleum and petrochemical products; evaluation of the development trends of multi-purpose electronic computers; and improving the efficiency of atmospheric pollution control, etc.[133]

In eastern Germany, technological forecasting is carried out in sequence at four main levels. At the initial stage, the State Planning Commission gives a global evaluation of comprehensive macro-economic developments which provide the goal-setting policy-background of forecasting. The next step consists of specific forecasts for " structural complexes " elaborated by a central Working Group at the Council of Ministers level; such forecasts serve the purpose of preparing decisions related, for instance, to automation, rationalization of processing techniques, introduction of electronic data-processing, etc. A third category of forecasts bears upon the prospective development of specific technologies, processes and products; they are prepared by expert groups working under the supervision of the National Research Council and the Ministry for Science and Technology. Finally, the industrial ministries, the VVBs, the enterprises and research institutes are responsible for the formulation of " scientific-technical concepts ", which contain forecasts and calculations with regard to: (i) the national economic utility of the products concerned; (ii) marketing, foreign trade and intra-CMEA co-operation; (iii) cost and price aspects; and (iv) the definition of vertical economic relations within the projected production lines. As may be seen, these scientific-technical concepts are really part of technological planning.

On the basis of such forecasting activities, confronted in an iterative approximation process, the State Planning Commission is in a position to elaborate the " concepts of structural policy ", which define the main patterns of development of a medium-term plan period. The formulation of these concepts involves the singling out and selection of specific variants among the sets of alternatives offered by the forecasts and in particular determines the structurally important projects. They provide guidelines for decisions on the accelerated development of particular branches and commodity groups, the introduction of specified production and management techniques (such as integrated data-processing systems, operational research, automated machine-tool systems) and modifications in the organization of economic activity (e.g. the formation of combinates).

In some other countries, such as Czechoslovakia, Hungary and Poland, scientific and technological programmes and concepts are also elaborated at the central level with the co-operation and help of advisory councils, including leading research scientists and production experts. In various ways, in an iterative selection process, some of these concepts are integrated into the framework of the medium-term plans of economic development. The problem of harmonizing these concepts with the actual economic development plans has by no means been solved everywhere in a satisfactory way. By nature, the scientific and technological programmes and concepts are essentially long-term studies, while the current economic development plans are all of a medium-term character. Problems and tasks embodied in the State plan for the development of science and technology range from the application of innovations resulting from past R and D efforts at home and abroad (through international co-operation and purchase of licences), via problems at present under investigation in research and development institutes, to the formulation of potential scientific research problems. The last group of problems belongs to the realm of technological forecasting proper, often with a time-horizon of ten years or more. The time-horizon of the second group is shorter, but the solution of the tasks and problems concerned will, as a rule, only have an impact on the economy in about 5-10 years time.[134] It is therefore the opinion of some officials of the Ministry for Technology in Czechoslovakia[135] that the existence of realistic long-term development plans which have so far not been completed, but are under preparation in most other countries of the area is a precondition for effectively integrating technological forecasting into over-all economic and social development plans and programmes.

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[130] See *Polish Economic Survey*, No. 1, 1970, p. 16.

[131] In a Decree of the Central Committee of the CPSU and the Council of Ministers of the USSR, on the measures to increase the efficiency of the activity of scientific organizations and to ensure a more rapid implementation in the national economy of the achievements of science and technology. (See *Pravda*, 23 October 1968.)

[132] See, e.g., E. Ivanov, " Economic Prevision of Technological Progress ", *Voprosy ekonomiki*, No. 3, 1969.

[133] See " Principles and methods of long-term planning and economic forecasting in the USSR ", monograph submitted by the USSR to the Seventh Meeting of Senior Economic Advisers to ECE Governments (17-22 November 1969).

Clearly, the growing complexity of the forecasting and planning activities, which reflects the rapidly changing patterns and interrelationships of technologies, requires a constant refinement of the methods applied. In recent years, accordingly, intense efforts have been devoted in the countries of the area to the development of suitable economic-mathematical instruments and models. However, with the new emphasis on qualitative and structural changes, it is becoming increasingly difficult to convert and aggregate the various development targets into quantitative values that can be included in globally balanced plans. Moreover, it is felt that the reforms of the price systems have not entirely solved the problem of making economically precise assessments of alternative solutions, based, *inter alia*, on cost-benefit analysis.

(ii) Economic policy measures for, and incentives to, the introduction of technological innovations

Clearly, awareness has developed among policy-makers in all countries of the region that the crucial strategic point of impact of science policies lies with the basic economic agents. In other words, all the various systems of planning, managing, co-ordinating and promoting technological progress in the national economies must necessarily contain a common functional element: efficient instruments and channels for the transfer of selected, relatively optimized technologies from research institutions and laboratories to production processes. This statement is not, as might appear, a truism, but reflects the fact that such a transfer of technologies is by no means an automatic process.

Measures aimed at increasing the capability and readiness of enterprises to absorb cost-lowering and/or quality improving technological innovations, without detailed directives from the central authorities, therefore turned out to be a vital component of the conceptual framework of the economic reforms. They reflected the central tendency in the reforms of shifting from predominantly administrative and mandatory to more indirect and complex methods of planning and management, attempting to combine the advantages of a centrally planned, coherent science policy with those of economic initiative on the part of enterprises and their financial interest in technical progress.

Prior to the economic reforms, technological progress in the various sectors of the economy resulted mainly from major projects (including the establishment of new enterprises) expressly incorporated in the economic plans and the plan targets. Indeed, with the emphasis on global output as a success indicator, the pre-reform systems of planning and management did not provide incentives at the enterprise level for the introduction of technological innovations.[136] The development of new products and processes, as a rule, brought no particular advantages to the enterprises; on the contary, it hindered the fulfilment of production plans by disrupting existing production patterns and thus entailed losses for the enterprise, resulting in reduced bonuses and premia for the personnel and management because of deteriorated success indicators. As a result, therefore, enterprise managements did not promote the introduction of new products and processes, while accepting and striving for any extensions of the *existing* technological set-ups that would confer more importance and financial scope to their enterprise. The new systems represent an effort to remove barriers to technical progress at the enterprise level by means of price policies, the establishment of links between material incentives and economic results and a certain decentralization of the financing of research and development activity.

Price reforms

Price reforms may be considered as a prerequisite for delegation of decision-making authoritiy to enterprises, for the introduction of economic results as a main indicator of enterprise performance and for the inducement of a more favourable attitude to technical progress at the enterprise level.

By its wholesale price reform in 1967, the Soviet Union created a price structure reflecting more closely the relationships between costs and productivity levels, and offering a more reliable system of reference for economic evaluations and comparisons of technological alternatives.[137] Moreover, in order to promote technical progress, prices are no longer determined exclusively on the basis of average cost; account is taken of the quality and the technological level of the products. Official statements have been made to the effect that wholesale prices will be rendered more flexible, through the introduction of a sliding price scale. Running adjustments will systematically reduce the prices of outdated products so as to discourage production and to push enterprises into new, financially more advantageous production lines.[138] Thus prices and producers' profits are increased for some new, better products, while discounts on prices of technically obsolete items are granted. In some branches (such as the electrotechnical industry, where an experiment in the new system of planning and management is being carried out) all products have been classified into three categories according to their technological level and quality; on the basis of decisions made by the branch ministry and the State Committee for Standardization, the prices of individual products are then increased or cut accordingly.

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[134] See " Machinery for co-ordination of science planning, technical development and economic planning ", *Policies and Means of Promoting Technical Progress*, New York 1968.

[135] *Rudé Právo*, 19 November 1969.

[136] Although innovation premia for management had been introduced at the end of the 1950s they did not prove to have a sufficiently stimulative effect.

Price changes along similar lines have been introduced in Bulgaria, where enterprises may obtain, by authorization of the Institute for Rationalization and Standardization, an increase in the prices of their products by as much as 15 per cent if the latter are considered to attain European standards of quality and up to 20 per cent if it is found that they satisfy international quality requirements.

In Hungary, the introduction of a new price system was considered a key issue of the reform, with a view to ensuring a harmony of interests between individual enterprises and society as a whole. The new prices were intended, in particular, to serve as indicators of relative social inputs and the market relationships to be utilized by planning organs and decision-making bodies.[139]

Limited reforms of producer prices have also been implemented in Czechoslovakia which introduced prices with lower and upper limits for groups of commodities so as to take into account, over and above the costs, the utility of the product as represented by its technical parameters.

Eastern Germany started, in the 1969-1970 period, a gradual application of the new system of planned evolution and reduction of industrial prices, an important component of its economic reform policy. It also introduced, as a special stimulus to greater efficiency on the part of research organizations, variable prices paid for research work, containing a supplement dependent on results—i.e. related to their " calculated economic utility ".[140]

New methods of financing R and D

Concurrently with the price reforms, new principles of financing research activities were adopted by the countries of the region. Instead of global, fixed financing from the State budget, resources for research were, to a varying extent, allocated on the basis of contracts signed by industrial research organizations with enterprises, their associations, combinates or ministries. Research institutions were placed on the system of autonomous economic accounting (*khozraschot*), implying balanced income and expenditures, planned profits and the constitution of various funds of the institutions. The purpose of this measure was to generate a direct financial interest in the results of research on the part both of the scientific institute engaged in it and of the receiving party to the contract to the extent that the work is financed from the resources of the latter. An increasing part of applied research and development activities was, moreover, conducted by research units within the enterprises themselves (especially the larger ones), and financed from the resources of the enterprises.

The tendency is very clear-cut in eastern Germany, where the research institutions are in principle no longer to be financed entirely through the budget but will be paid for their work by those enterprises or VVBs which utilize the results of their research. The same applies, in part, to fundamental research institutes.

In some countries (such as Bulgaria) fundamental research remained wholly financed from the State budget, while applied research and development was mainly financed by contracts. Romania entered a process of transition—from budget financing of research to relative financial autonomy of the institutes, based on contracts with ministries, combinates and industrial centres, and possibly even with foreign research institutes.

In Czechoslovakia, the institutes of the Academy of Sciences and some other centrally managed research institutions are still being financed from the State budget while all the other research institutions are working on a cost-accounting basis. Contracts concluded by the potential users of the research results (an enterprise, association or a Ministry) with the research institutions concerned have been widely introduced. While the advantages of this contract system are generally recognized by the managers of the research institutions, some complaints have also been voiced that the fact of being forced to finance the institute solely through the proceeds of its research contracts may lead to the neglect of long-range problems with a higher degree of risk. This is so when the institute is unable to persuade a partner to conclude a contract for such a project.[141] For that reason it is foreseen that central institutions, and particularly the Ministry of Technology, should finance this type of activity through subsidies and budgeted tasks incorporated in the State plan of scientific research projects.[142]

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[137] See the *Economic Survey of Europe in 1967*, chapter II, pp. 67-68.

[138] See, e.g., V. Sitnin (Chairman of the USSR State Committee on Prices), " Improvements in wholesale prices ", *Ekonomicheskaya Gazeta*, No. 47, 1968; and the National Conference on Prices, *Ekonomicheskaya Gazeta*, No. 7, 1969.

[139] See the paper presented by the Hungarian Government to the Fifth Meeting of Senior Economic Advisers to ECE Governments, under the title: " Criteria of Industrial Development Projects and Investment Decisions in the Hungarian People's Republic ", in *Policies and Means of Promoting Technical Progress*, New York 1968, p. 116.

[140] Special regulations concerning price-setting for new, improved or outdated products have also been elaborated for some branches, e.g. for the metal-using industries in 1968 and for the textile, clothing and leather-processing industries in 1969. These regulations permit the granting of special profit advantages to enterprises in a running-in period (which may stretch from 2 to 3 years). See *Die Wirtschaft*, No. 5, 1970, p. 14.

The same applied to the Soviet Union, which was developing *khozraschot* contractual relations between R and D establishments and industrial organizations, in an effort to step up the efficiency of research work, both at the giving and the receiving end. However, research on a contractual basis has not yet been practised on a large scale. The main reason would seem to be that contracts dealt mainly with minor projects, whereas all important projects in applied research, as well as the whole of fundamental research, were still, as a rule, carried out on the basis of plan targets, encompassing the bulk of technological innovation. Research establishments could, accordingly, carry out projects on a contractual basis only over and above their plan targets. Consequently, they were often not interested in conducting research ordered through contracts, their capacities being fully engaged in fulfilling the plan. Industrial enterprises with the necessary resources for R and D were therefore frequently unable to find construction and design organizations prepared to enter into research contracts with them.

In accordance with a Decree of October 1968 on the measures to increase the efficiency of scientific organizations (quoted above), a new system of planning and stimulation is to be gradually introduced into scientific organizations. The system was introduced in January 1969, on an experimental basis, into the research organizations depending on the Ministry of electro-technical industry (which as a whole is gradually being put on a *khozraschot* basis). The volume of planned research is determined by the structure and volume of planned output of the branch. Research activities are financed from a Fund for Development of Science and Technology, set up with the Ministry and financed by deductions from profits realized by the branch (in particular as a result of technological progress). The new system seems to be half-way between budget financing and direct contracts with industrial organizations.

Hungary introduced new forms of contracts between industrial research institutes and enterprises, or the National Committee for Technical Development, channelling applied research into projects that are considered important and financially interesting by the ordering parties. In these contracts the price set for the research project is either fixed or is a percentage of the likely return from its application, arrived at by a bargaining process between the contracting partners. This procedure constitutes an interesting illustration of a tendency, felt with varying degrees of intensity in most countries of the region, to give an increasing measure of autonomy to enterprises' management, as an expression of the spirit of economic reforms.

A particular way of increasing the enterprises' active participation in and concern with technological progress was the creation of their own special R and D funds. In eastern Germany, the enterprises build up " funds for science and technology " from earned profits and, in principle, may plan the utilization of these means at their own initiative. The size of these funds is, however, made dependent on the national economic importance attributed to the output of the respective enterprises, and determined by rates which may vary from one plan period to the next. It is noteworthy that, beginning with 1971, research expenditures will be included as costs in the calculation of product prices.[143]

There are additional means for concentrating research capacities on " structurally important projects ". Thus, the VVBs are entitled to concentrate enterprise funds for this purpose, and State budget resources may be allocated to particularly important projects by the Ministry for Science and Technology.

Similarly, with enterprises in the Soviet Union, " production development funds " were set up, financed from a part of depreciation allowances, deductions from profits and receipts from sales of unused and superfluous equipment. These funds totalled 2,288 million roubles in 1968, 73 per cent of which was effectively utilized by the enterprises (it was planned that these funds would reach 2.5 billion roubles in 1969 and 3.5 billion in 1970).

According to official statements, the resources of the production development funds are intended to be utilized so as to ensure the simple replacement of the enterprises' fixed assets at a new technical level, i.e. by modernization of equipment, as a rule without expansion of capacity. They may, however, be utilized for automation. The enterprises are thus able to introduce new technological processes without having to go through the long procedures of centralized financing. Criticisms have been voiced, however, that these funds amount typically to 2-4 per cent of the value of fixed assets, and that their size is inadequate to cope with the functions that have been assigned to them. Enterprises, therefore, tend to utilize them mainly for small investments, such as the elimination of minor bottlenecks or for small accretions of existing equipment. It is thought, however, that the sources of these funds will be further enlarged (especially in big factories) in order to increase the possibilities of their contribution to radical technological improvements, effected at the initiative and with the resources of the enterprises themselves.

In Czechoslovakia, current outlays for research and development in industry are financed as costs in the enterprise balance. Only investment outlays for research and development are covered through special investment funds to which allocations are made from profits and depreciation charges. The current outlays for industrial research and development are either covered through commitments arising out of contracts concluded with a financially independent research institute or through direct financing of the outlays of the research and development unit, incorporated within the enterprise or its association.

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[141] *Rudé Právo*, 28 November 1969.

[142] *Plánované Hospodářství*, No. 8, pp. 34-35.

[143] See *Die Wirtschaft*, No. 28, 1968, p. 5.

To cite another interesting example, in Bulgaria, too, funds were created at the enterprise and " trust " level. A " new output fund " was constituted with all enterprises, financed by an addition to planned production costs according to mandatory long-term normatives, thus realizing the principle of cost-included research outlays projected to be applied in 1971 in eastern Germany.

The new output fund is destined more particularly to finance research in new or existing products and technologies, for testing-design work, for the construction and purchase of experimental laboratory equipment, for the purchase of licences and technological documentation, as well as for the paying of premia to workers and specialists for the effective implementation of results of research.

A " fund for development and technical perfection " was also constituted out of depreciation allowances, profit deductions, a part of circulating assets, proceeds from sales of obsolete or unutilized fixed assets and other sources. Its utilization has a rather wider scope than the corresponding fund with Soviet enterprises. Thus, it even covers such expenditures as outlays for circulating assets, labour protection and insurance. It is significant, however, that it is intended to be used, *inter alia*, to finance expenditures for scientific research and testing-design activities, as well as for the training of qualified personnel needed by the enterprise.

Parts of these enterprise funds are concentrated at the " trust " level as well as with the State Committee for Science and Technical Progress.

Scientific and technological co-operation

In recent years the forms of scientific and technological co-operation among CMEA countries have evolved in a number of ways in response to faster technical progress and the increased importance attached to economic accounting and incentives by the economic reforms.[144] The latter measures, by increasing cost-consciousness among R and D organizations, have stimulated the quest for forms of international co-operation which reduce duplication of efforts and provide for financial compensation of R and D outlays. It was increasingly felt, moreover, that the individual member countries were not in a position to solve scientific and technological problems of a growing complexity with their own limited resources. Problems and prospects in the field of scientific and technological co-operation among member countries were therefore in the forefront of attention at the Twenty-third Session of the CMEA in 1969. This was all the more significant in the light of the session's decision to achieve a continuous co-ordination of plans of the member countries so as to ensure a comprehensive and coherent solution of common problems in the fields of R and D, production and investments.

Furthermore, in accordance with principles endorsed in the economic reforms, a novel approach was formulated by the Thirtieth Session of the CMEA Executive Committee to conditions regulating the exchange of technical documentation among member countries. Modifying to a certain extent the principle of free exchange of technical documentation among member countries (except for the compensation of expenses sustained in respect of the preparation of such documentation), adopted at the Second session of the CMEA in 1949, the Executive Committee recommended that the possibility be given to the parties in the exchange to agree for the beneficiary to assume a part of R and D costs incurred by the country having conducted the research activities. The latter was much discussed in the CMEA countries and the opinion seemed to prevail that such a sharing of R and D expenses should in no case include an equivalent of royalties. The new principle was endorsed, mainly on the grounds that exchanges of technical documentation could lead to export losses for the supplying country where the receiving country used the technical documentation for developing import-substituting products, or entered third markets as a competitor. It was felt, besides, that such new arrangements, based on mutual self-interest, could only benefit the receiving country, since the lack of incentive inherent in the principle of free transfer of technology had often resulted in a tendency to transmit documentation in respect of fairly well run-in and even out-of-date technological processes.[145]

In recent years contractual agreements on the reciprocal transfer of technology, stipulating the share of the cost of joint projects to be borne by each partner, and providing for modes of payment, conditions of utilization of the results obtained and modalities for a transfer of results to third countries, seem to have become quite common practice among CMEA members. As a result of decisions taken at the Twenty-third Session of the CMEA, a further extension of this type of contract may be expected. In particular, new forms of multilateral contracts might be elaborated.

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[144] See *Survey of CMEA activities in 1968*, Moscow 1969, pp. 30-43.

[145] See, e.g. *Voprosy ekonomiki*, No. 5, 1969, pp. 57-68.

(iii) The R and D effort

Turning to the input side of R and D, it must be stated that the countries of the region give convincing proof of their intense preoccupation with the development of science and technology. Though the figures are not entirely comparable, they show that outlays for R and D in the countries of the region are high with regard to their national income and, as a rule, have grown rapidly.

Expressed as a percentage of national income, expenditures for science and technology range from 1.0 to 3.6 per cent (see table below), and have increased notably faster than national incomes. It should be pointed out, however, that the percentages have been calculated with respect to net material product; the figures would be lower (say by approximately 20 to 30 per cent) if expressed

Outlays on R and D as percentage of national income

	1960	*1965*	*1968*	*1969*
Bulgaria	1.1[a]	..	1.4	..
Czechoslovakia	2.4	3.3	3.3	3.4
Eastern Germany	1.8[b]	..	3.0	3.5
Hungary	1.7	2.3	2.4	..
Poland	1.3[a]	1.4	2.2	..
Romania	..	..	..	1.0[c, d]
Soviet Union[d]	2.7	3.3	3.6	..

[a] 1961.
[b] Estimate.
[c] 1970 plan.
[d] Outlays for research only, development excluded.

as percentages of gross domestic product at market prices, as is usually done for western countries.[146] On the other hand, figures for the Soviet Union and Romania refer to outlays on research only, without development expenditures.

It is significant that, in some of the countries for which the data are available, a notable part of R and D outlays was financed from decentralized funds. Thus in the Soviet Union the share of outlays for science and technology (development costs excluded) financed from the State budget declined from 71 per cent in 1964 to 64 per cent in 1969, the share of decentralized funds (including ministries) increasing from 29 to 36 per cent. In Bulgaria, the corresponding shares for 1967 were 34 per cent for enterprises, 31 per cent for special funds, 29.5 per cent for the State budget and 5.5 per cent out of the resources of the scientific institutions themselves. Thus about 40 per cent of expenditures for R and D was financed out of decentralized sources. In Poland, the share of R and D outlays financed out of the central budget decreased from 34 per cent in 1965 to roughly 30 per cent in 1968, the share financed by the fund for technological-economic development, formed from enterprise funds, rising accordingly from 66 to 70 per cent. In Czechoslovakia, 31 per cent of R and D outlays in 1968 were spent in budgetary research organizations, the rest being spent in research institutes working on a cost-accounting basis. However, as the State also finances part of the outlays in the latter category of institutes, some 60 per cent of total research and development outlays is financed from central funds.[147] In Hungary, 32 per cent of total research and development expenditures was financed from the State budget. These figures are not strictly comparable but they tend to indicate the results achieved in securing the participation of organizations at intermediary and lower levels of decision-making in R and D activities.

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[146] There are also differences in the statistical definitions of R and D outlays in the east and west European countries. Work is being undertaken under the auspices of UNESCO and the Conference of European Statisticians to achieve international comparability.

[147] *Plánované hospodářství*, No. 8, pp. 34-35.

Appendix table I

Output of selected industrial products in eastern Europe and the Soviet Union, 1966 to 1969 and 1970 Plan

Product and country	*1966*	*1967*	*1968*	*1969*		*1970 Plan*
				Plan	*Actual*	
Electric power *(million kWh)*						
Bulgaria	11.8	13.6	15.5	..	17.2	19.0
Czechoslovakia	36.5	38.6	41.4	..	42.0	..
Eastern Germany	56.9	59.7	63.2	..	65.1	..
Hungary	11.9	12.5	13.2	..	14.1	..
Poland	47.4	51.3	55.5	60.1	60.1	65.0
Romania	20.8	24.8	27.8	31.0	31.5	34.8
Soviet Union	544.6	587.7	638.7	687	689	740
Total	729.9	788.2	855.3	..	919	..
Coal [a] *(million tons)*						
Bulgaria	26.5	28.8	28.7	..	31.2	..
Czechoslovakia	100.8	97.6	100.4	..	105	..
Eastern Germany	249.0	242.0	247.1	..	255.2	..
Hungary	30.3	27.0	27.2	..	26.5	..
Poland	146.5	147.8	155.9	161.0	165.9	171.4
Romania	13.5	15.0	17.0	19.6	19.2	23.2
Soviet Union	585.6	595.2	594.0	595.3	608	618
Total	1 152.2	1 153.4	1 170.3	..	1 211	..
Petroleum *(million tons)*						
Bulgaria	0.40	0.50	0.48	..	0.68	..
Czechoslovakia	0.19	0.20	0.21	..	..	..
Eastern Germany	—	—	—	—	—	—
Hungary	1.71	1.69	1.81	..	1.75	..
Poland	0.40	0.45	0.48	0.55	0.44	0.50
Romania	12.83	13.21	13.30	13.20	13.25	13.30
Soviet Union	265.1	288.1	309.2	326.5	328	350
Total	280.6	304.2	325.5	..	344	..
Natural gas *(billion m^3)*						
Bulgaria	—	—	—	—	—	—
Czechoslovakia	—	—	—	—	—	—
Eastern Germany	—	—	—	—	—	—
Hungary	1.55	2.04	2.68	..	3.24	..
Poland	1.38	1.57	2.56	3.70	3.92	5.10
Romania	14.08	16.0	17.2	18.05	19.1	18.8
Soviet Union	144.7	159.2	170.8	185.8	183	195.8
Total	161.7	178.8	193.2	..	209	..
Pig-iron *(million tons)*						
Bulgaria	0.90	1.03	1.11	1.20	1.13	..
Czechoslovakia	6.27	6.82	6.92	..	7.01	..
Eastern Germany	2.45	2.53	2.33	..	2.08	..
Hungary	1.63	1.66	1.64	..	1.75	..
Poland	5.86	6.58	6.84	..	..	..
Romania	2.20	2.46	2.99	..	3.48	4.20
Soviet Union	70.3	74.8	78.80	83.4	81.6	..
Total	89.6	95.9	100.6	..	..	..
Crude steel *(million tons)*						
Bulgaria	0.70	1.23	1.46	1.65	1.52	..
Czechoslovakia	9.13	10.00	10.55	..	10.80	..
Eastern Germany	4.08	4.24	4.70	..	4.82	..
Hungary	2.65	2.74	2.90	..	3.03	..
Poland	9.85	10.45	11.00	11.20	11.29	11.50
Romania	3.67	4.08	4.75	5.49	5.54	6.5
Soviet Union	96.9	102.2	106.5	112.6	110	115.0
Total	127.0	134.9	142.0	..	147	..

APPENDIX TABLE I *(continued)*

Output of selected industrial products in eastern Europe and the Soviet Union, 1966 to 1969 and 1970 Plan

Product and country	*1966*	*1967*	*1968*	*1969*		*1970 Plan*
				Plan	*Actual*	
Rolled steel *(million tons)*						
Bulgaria	0.48	0.61	1.03	1.25	1.21	..
Czechoslovakia	6.52	7.11	7.53	..	7.50 [b]	..
Eastern Germany [c]	2.57	2.59	3.16	..	4.06	..
Hungary	1.74	1.78	1.98	..	2.02	..
Poland [d]	6.58	6.95	7.33	7.60	7.66	7.90
Romania [d]	2.59	2.91	3.39	..	3.82	4.54
Soviet Union	76.7	81.7	85.3	89.5	87.5	..
Total	97.2	103.7	109.7	..	113.8	..
Mineral fertilizers [e] *(thousand tons)*						
Bulgaria	369	354	411	..	..	..
Czechoslovakia	512	519	526	..	588	..
Eastern Germany	598	641	697	..	755	..
Hungary	298	338	401	..	..	..
Poland	826	975	1 233	1 574	1 472	1 772
Romania	419	537	603	859	720	947
Soviet Union	8 400	9 400	10 200	11 087	10 800	..
Total	11 422	12 764	14 071	..	..	..
Sulphuric acid *(thousand tons)*						
Bulgaria	353	360	472	..	498	..
Czechoslovakia	982	1 012	977	..	..	..
Eastern Germany	795	806	1 078	..	1 104	..
Hungary	393	424	446	..	454	..
Poland	1 139	1 213	1 314	1 640	1 516	2 080
Romania	619	679	773	..	838	..
Soviet Union	9 367	9 737	10 159	..	10 664	..
Total	13 648	14 231	15 219	..	..	..
Caustic soda *(thousand tons)*						
Bulgaria [f]	38.7	42.1	43.0	..	51.0	..
Czechoslovakia	176	178	179	..	..	..
Eastern Germany	381.1	389	405	..	394	..
Hungary	52.2	55.5	52.3	..	55	..
Poland [f]	247	276	307	..	324	..
Romania	252	260	276	..	..	..
Soviet Union [g]	1 393	1 524	1 658	..	1 813	..
Total	2 540	2 725	2 920	..	..	..
Plastic and resins *(thousand tons)*						
Bulgaria	40	44	59	..	74	..
Czechoslovakia	152.0	186	197	..	..	..
Eastern Germany	249.6	278.2	..	..	..	..
Hungary	33.3	36.4	43.3	..	39.5	..
Poland	132	161	199	242.1	240	278.2
Romania	94.7	108	129.7	169.3	137	223.3
Soviet Union	971	1 114	1 291	1 480	1 452	1 859
Total	1 673	1 928	..	..	..	..
Synthetic and artificial fibres *(thousand tons)*						
Bulgaria	—	—	..	—	..	..
Czechoslovakia	83.0	88.5	88.5	..	..	..
Eastern Germany	180.4	188.1	..	..	..	..
Hungary	7.4	8.6	9.4	..	9.6	..
Poland [h]	106.5	116.3	124.0	130.4	130.5	139.3
Romania	34.2	47.3	53.5	60.2	56.4	71.8
Soviet Union	458	511	554	..	583	694
Total	870	960	..	..	..	..

Appendix table I *(continued)*

Output of selected industrial products in eastern Europe and the Soviet Union, 1966 to 1969 and 1970 Plan

Product and country	*1966*	*1967*	*1968*	*1969*		*1970 Plan*
				Plan	*Actual*	
Cement *(million tons)*						
Bulgaria	2.9	3.4	3.5	. .	3.7	. .
Czechoslovakia	6.1	6.5	6.5	. .	. .	. .
Eastern Germany	6.5	7.2	7.6	. .	7.4	. .
Hungary	2.6	2.7	2.8	. .	2.6	. .
Poland	10.0	11.1	11.6	11.96	11.8	12.50
Romania	5.9	6.3	7.0	7.8	7.5	8.2
Soviet Union	80.0	84.8	87.5	92.0	89.9	94.3
Total	114.0	122.0	126.5	. .	. .	. .
Paper *(thousand tons)*						
Bulgaria	133	151	187	. .	. .	. .
Czechoslovakia	544	584	596	. .	. .	. .
Eastern Germany	640	671	689	. .	702	. .
Hungary	192	239	258	. .	251	. .
Poland	657	672	681	719	702	766
Romania	287	336	380	425.5	398	437
Soviet Union	3 780	3 990	3 955	4 136	4 000	4 132
Total	6 233	6 643	6 746	. .	. .	. .
Metal-cutting machines: tools *(thousands)*						
Bulgaria	. .	. .	. .	. .	. .	. .
Czechoslovakia	27.6	29.7	. .	. .	. .	. .
Eastern Germany	. .	. .	. .	. .	. .	. .
Hungary	9.8	10.0	10.9	. .	. .	. .
Poland	32.6	32.3	29.0	. .	. .	33.6
Romania	8.5	9.7	11.7	13.1	13.6	. .
Soviet Union	192	198	200.8	. .	206	. .
Total	. .	. .	. .	. .	. .	. .
Tractors (two-axle) *(thousands)*						
Bulgaria	3.1	2.7	4.6	. .	3.5	. .
Czechoslovakia	28.2	28.7	24.4	. .	18.6	. .
Eastern Germany	12.2	11.1	14.2	. .	. .	. .
Hungary	3.3	3.6	2.8	. .	1.7	. .
Poland	24.6	29.8	34.9	44.3	44.2	46.3
Romania	18.5	17.6	21.2	25.0	24.9	30.3
Soviet Union	382	405	423	449	442	456
Total	472	499	525	. .	. .	. .
Electric and diesel locomotives [i] *(units)*						
Bulgaria	—	—	—	—	—	—
Czechoslovakia	615	709	637	. .	. .	. .
Eastern Germany	500	547	594	. .	. .	. .
Hungary	141	138	135	. .	. .	. .
Poland	450	353	388	. .	438	421
Romania	125	133	167	228	214	255
Soviet Union	2 129	1 885	1 805	. .	. .	. .
Total	3 960	3 765	3 726	. .	. .	. .
Railway freight wagons *(thousands)*						
Bulgaria	1.93	1.79	1.55	. .	. .	. .
Czechoslovakia	4.44	4.19	4.32	. .	. .	. .
Eastern Germany	3.69	4.22	5.50	. .	4.19	. .
Hungary	0.56	0.39	0.45	. .	0.27	. .
Poland	16.6	12.70	12.60	. .	14.02	15.42
Romania	7.61	7.02	8.27	. .	8.92	. .
Soviet Union	40.1	43.8	48.1	. .	50.2	. .
Total	74.9	74.1	80.8	. .	. .	

Appendix table I *(continued)*

Output of selected industrial products in eastern Europe and the Soviet Union, 1966 to 1969 and 1970 Plan

Product and country	*1966*	*1967*	*1968*	*1969*		*1970 Plan*
				Plan	*Actual*	
Motor-lorries *(thousands)*						
Bulgaria	—	—	—	—	—	—
Czechoslovakia	18.0	19.9	22.6	..	23.6	..
Eastern Germany	20.2	21.9	23.6	..	25.3	..
Hungary	4.9	4.8	4.8	..	..	..
Poland	29.5	32.2	35.1	40.2	40.7	36.8
Romania[j]	18.5	20.6	25.5	30.5	28.3	36
Soviet Union	407.6	437.4	478.1	503.0	504.5	527.3
Total	498.7	536.8	589.7	..	..	..
Passenger motor-cars *(thousands)*						
Bulgaria	—	—	—	—	—	—
Czechoslovakia	92.7	111.7	125.7	..	132.4	..
Eastern Germany	106.5	111.5	114.6	..	120.9	..
Hungary	—	—	—	—	—	—
Poland	29.2	27.7	40.4	..	50.2	67.5
Romania	—	—	7.8	12	19.1	16.0
Soviet Union	230.3	251.4	280.3	307	293.6	348
Total	458.7	502.3	568.8	..	621.3	..
Television sets *(thousands)*						
Bulgaria	90	130	153	..	..	..
Czechoslovakia	228	256	350	..	..	..
Eastern Germany	562	475	400	..	356	..
Hungary	298	316	339	..	345	..
Poland	412	495	560	570	600	580
Romania	105	142	161	220	221	290
Soviet Union	4 415	4 955	5 742	6 584	6 600	7 458
Total	6 110	6 769	7 705	..	..	..
Radio sets *(thousands)*						
Bulgaria	184	149	139	..	..	..
Czechoslovakia	247	222	352	..	..	..
Eastern Germany	901	932	815	..	750	..
Hungary	250	247	253	..	234	..
Poland	623	612	787	875	891	960
Romania	325	367	388	425	428	455
Soviet Union	5 842	6 416	6 981	..	7 300	..
Total	8 372	8 945	9 715	..	..	..
Domestic refrigerators *(thousands)*						
Bulgaria	47	60	91	..	119	..
Czechoslovakia	279	279	301	..	..	..
Eastern Germany	360	403	377	..	..	..
Hungary	113	119	154	..	14	..
Poland	334	341	388	..	404	..
Romania	140	153	148	159	147	160
Soviet Union	2 205	2 697	3 155	3 744	3 700	..
Total	3 478	4 052	4 614	..	..	..
Domestic washing machines *(thousands)*						
Bulgaria	125	162	184	..	..	..
Czechoslovakia	230	222	221	..	..	..
Eastern Germany	314	324	327	..	..	..
Hungary	179	108	167	..	158	..
Poland	396	433	470	..	483	..
Romania	101	127	163	..	..	..
Soviet Union	3 869	4 324	4 700	..	5 200	..
Total	5 214	5 772	6 232	..	..	..

APPENDIX TABLE I *(continued)*

Output of selected industrial products in eastern Europe and the Soviet Union, 1966 to 1969 and 1970 Plan

Product and country	*1966*	*1967*	*1968*	*1969*		*1970 Plan*
				Plan	*Actual*	
Bicycles *(thousands)*						
Bulgaria	18	22	25	. .	. .	. .
Czechoslovakia	398	410	419	. .	. .	. .
Eastern Germany	452	450	374	. .	. .	. .
Hungary	255	265	266	. .	283	. .
Poland[k]	758	730	728	. .	. .	. .
Romania	169	154	199	. .	. .	. .
Soviet Union	4 048	4 199	4 303	. .	4 400	. .
Total	6 098	6 230	6 305	. .	. .	. .
Cotton fabrics *(million square metres)*						
Bulgaria[l]	299	306	319	. .	. .	. .
Czechoslovakia[l]	494	492	481	. .	472	. .
Eastern Germany	244	247	250	. .	. .	. .
Hungary	334	340	330	. .	311	. .
Poland[b]	845	824	835	824	846	879
Romania	339	357	377	. .	. .	. .
Soviet Union	5 701	5 915	6 116	6 372	6 210	. .
Total	. .	. .	. .	. .	. .	. .
Woollen fabrics *(million square metres)*						
Bulgaria[l]	21.7	22.4	23.3	. .	. .	. .
Czechoslovakia[l]	45.2	46.4	46.1	. .	. .	. .
Eastern Germany	38.8	38.1	34.9	. .	. .	. .
Hungary	38.7	41.0	39.6	. .	34.6	. .
Poland[b]	91.5	90.1	94.5	. .	98.9	99.0
Romania	44	50	52	. .	. .	. .
Soviet Union	509	547	585	623	617	. .
Total	. .	. .	. .	. .	. .	. .
Leather footwear *(million pairs)*						
Bulgaria	12.0	13.9	15.7	. .	18.3	. .
Czechoslovakia	51.3	52.4	51.0	. .	52.0	. .
Eastern Germany	29.4	30.2	30.2	. .	29.8	. .
Hungary	27.0	30.5	32.8	. .	32.8	. .
Poland	52.5	57.6	63.2	66.6	68.4	70.2
Romania	32.0	34.0	37.4	. .	. .	. .
Soviet Union	522	561	598	639	635	675
Total	726	780	. .	. .	. .	. .
Meat *(thousand tons)*[m]						
Bulgaria	224	249	267	. .	. .	. .
Czechoslovakia	543	574	615	. .	589	. .
Eastern Germany	907	949	1 010	. .	1 043	. .
Hungary	265	270	330	. .	312	. .
Poland	1 286	1 312	1 296	1 325	1 362	1 317
Romania	345	399	429	483	417	. .
Soviet Union	5 774	6 463	6 601	. .	6 400	7 000
Total	9 344	10 216	10 548	. .	. .	. .
Butter *(thousand tons)*[m]						
Bulgaria	11.6	13.4	15.1	. .	. .	. .
Czechoslovakia	84.2	82.2	86.9	. .	87.0	. .
Eastern Germany	205.6	209.4	219.8	. .	. .	. .
Hungary	19.3	23.3	21.4	. .	21.3	. .
Poland	118	119.1	123.8	132	117.7	121
Romania	28.2	30.1	28.6	. .	30.8	. .
Soviet Union	1 042	1 060	1 044	. .	. .	. .
Total	1 509	1 537	1 540	. .	. .	. .

APPENDIX TABLE I *(concluded)*

Output of selected industrial products in eastern Europe and the Soviet Union, 1966 to 1969 and 1970 Plan

Product and country	*1966*	*1967*	*1968*	*1969*		*1970 Plan*
				Plan	*Actual*	
Sugar *(thousand tons)*						
Bulgaria	354	397	288	..	316	..
Czechoslovakia	984	956	911	..	..	..
Eastern Germany	618	627	555	..	..	..
Hungary	436	432	388	..	417	..
Poland	1 530	1 677	1 665	1 702	1 485 [b]	1 580
Romania	442	445	384	495	428	520
Soviet Union	9 740	9 939	10 767	..	10 300	..
Total	14 104	14 473	14 968	..	..	..
Vegetable oil *(thousand tons)*						
Bulgaria [n]	104.4	102.7	119.8	..	..	..
Czechoslovakia [n]	114.3	117.8	128.3	..	..	..
Eastern Germany [o]	199.2	190.8	188.8	..	..	..
Hungary	42.4	51	46.1	..	..	..
Poland [n]	173	176	180	195	189	196
Romania	206	256	268	290	291	283
Soviet Union	2 600	3 000	3 145	..	3 000	..
Total	3 439	3 895	4 076	..	..	..
Fish catch *(thousand tons)*						
Bulgaria	23.6	39.3	54.8	..	..	..
Czechoslovakia	..	..	..	..	..	..
Eastern Germany [p]	156	218	229	..	..	..
Hungary	..	..	..	..	..	..
Poland	316	321	386	384-395	397.2	..
Romania	..	..	..	..	..	..
Soviet Union	6 000	6 500	6 784	7 303	..	..
Total	..	..	..	..	..	..

Sources: National statistics, plans and plan-fulfilment reports, and direct communications from Governments.

[a] Hard coal, brown coal and lignite.

[b] Partly estimated.

[c] Hot rolled steel.

[d] Excluding steel tubes.

[e] All mineral fertilizers, in terms of pure content.

[f] 96 per cent.

[g] 92 per cent.

[h] *Of which:* synthetic fibres 33.8 thousand tons in 1967, 41.7 thousand tons in 1968 and 46.9 thousand tons in 1969.

[i] Excluding narrow gauge.

[j] Including buses.

[k] Bicycles and motor-cycles.

[l] Million metres.

[m] Industrial production only.

[n] Edible oil only.

[o] Margarine.

[p] For human consumption only.

APPENDIX TABLE II

Output of selected industrial products in Ukrainian and Byelorussian SSRs, 1967 to 1969 and 1970 Plan

	Ukrainian SSR				*Byelorussian SSR*				
	1967	*1968*	*1969*	*1970 Plan*	*1967*	*1968*	*1969 Plan*	*1969 Actual*	*1970 Plan*
Electric power *(billion kWh)*	108.7	116.2	128	137.8	10.9	12.2	12.4	12.9	15.1
Coal *(million tons)*	199.0	200.4	204	206.4	—	—	—	—	—
Petroleum *(million tons)*	11.0	12.1	13.4	13.6	0.8	1.7	2.7	2.8	4.3
Natural gas *(billion m³)*	47.4	50.9	55.4	58.8	—	—	—	—	—
Pig-iron *(million tons)*	36.7	38.6	39.3	41.2	—	—	—	—	—
Crude steel *(million tons)*	42.8	44.2	45.9	46.4	0.2	0.2			
Rolled steel *(million tons)*	34.5	35.6	36.8	36.8	0.06	0.06			
Mineral fertilizers, in terms of pure content *(million tons)*	1.9	2.0	2.1	2.5		1.5	1.8	1.7	
Sulphuric acid *(thousand tons)*	1 913	1 910	1 963	2 277	257.1	272	350	359	665
Caustic soda *(thousand tons)*	163.3	201.1	230		—	—	—	—	—
Synthetic and artificial fibres *(thousand tons)*	55.0	58.7	62.4	66	36.7	46.2	55.8	54.8	66.3
Cement *(million tons)*	14.9	15.7	16.9	16.5	1.9	1.9		1.9	
Paper *(thousand tons)*	173.1	181.8	187		96.2	97.7		99.7	
Metal-cutting machines: tools *(thousands)*	27.7	28.8	29.1		25.5	26.6	27	26.6	26
Tractors *(thousands)*	133.2	138.7	142	148	78.3	79.1	80	79.5	80
Electric and diesel locomotives *(units)*	1 439	1 420	1 374		—	—	—	—	—
Railway freight wagons *(thousands)*	19.8	22.6	24.3	26.4	—	—	—	—	—
Motor-lorries *(thousands)*	23.3	25.3	27.4		26.1	28.0	29	29.4	29.5
Passenger motor-cars *(thousands)*	64.8	77.8	78.8		—	—	—	—	—
Television sets *(thousands)*	917.7	1 274.6	1 731	2 129	353.7	425	497	544	640
Radio sets *(thousands)*	761.9	676.8	633	700.7	476	567		510	
Domestic refrigerators *(thousands)*	400.7	428.5	456		108.2	123	140	151	235
Domestic washing machines *(thousands)*	391.3	439.7	512						
Bicycles *(thousands)*	887.1	941.4	961		474.2	492		507	
Cotton fabrics *(million m²)*	218.1	225.3	234			58.1		73.5	
Woollen fabrics *(million m²)*	36.9	44.2	59.4			33.1		33.2	
Leather footwear *(million pairs)*	112.1	121.6	134	145	32.5	34.0		35.6	37.0
Meat *(thousand tons)*	1 371.9	1 411.7	1.4[a]	1.5[a]	329.4	331		358	375
Butter *(thousand tons)*	252.2	249.1			57.5	62.2		60.3	
Sugar *(thousand tons)*	5 814	6 360	6.4[a]	5.1[a]	146.3	145		167	
Vegetable oil *(thousand tons)*	1 013.6	1 006.1	938	1 076	22.1	23.4		21.3	
Fish catch *(thousand tons)*	633.9	648.5			7.6	8.6			

[a] Million tons.

CHAPTER 2

RECENT ECONOMIC DEVELOPMENTS IN WESTERN EUROPE

1. THE BOOM OF 1969

Contrary to most expectations, 1969 was a year of exceptionally fast growth of output, demand and foreign trade in most west European countries. In the industrial countries, taken together, total gross domestic product rose in volume by about 6 per cent, compared with 5 per cent in 1968; [1] the long-term growth rate may be put at about 4 per cent (the trend for the whole period 1953 to 1967). Total industrial production—perhaps a rather firmer figure at this stage—rose by about 9 per cent in 1969 (7½ per cent in 1968); the long-term rate was just under 6 per cent. These rates of expansion put 1969 among the four boom years of the post-war period:

Industrial western Europe

(Percentage increases in industrial production)

	1st cycle	*2nd cycle*	*3rd cycle*	*4th cycle*
Recession . . .		1952: 1	1958: 1.5	1967: 1.3
Recovery . . .		1953: 5	1959: 6.4	1968: 7.5
Peak	1951: 9	1954: 8.7 1955: 9.6	1960: 9.5	1969: 9.0
Slow-down . .	1952: 1	1956: 5.2	1961: 5.2	

Fluctuations in growth of gross domestic product were rather less marked. [2]

Most forecasts made by national authorities at the end of 1969 or in early 1970 indicate a marked slowing down in 1970 both in output and in foreign trade (see table 1). These national forecasts add up to a growth of GDP in 1970 of just over 4½ per cent, implying a rise in industrial production of perhaps 5 per cent or a little more, in industrial western Europe as a whole. This appears to conform with historical precedent (apart from the rather longer upswing in 1953-1955). The forecasts for the industrial countries are discussed in section 5 of this chapter. The possibility is there tentatively suggested that, although some slowing down in 1970 is certainly to be expected, the sum of national forecasts may exaggerate its extent (unless policies become more actively directed towards restraint of demand).

The acceleration in 1969, in industrial western Europe as a whole, was common to all except five countries: the growth rate slowed down in Ireland, Italy, the Netherlands and the United Kingdom, and levelled off in Norway. In Ireland and the United Kingdom, policy was deliberately aimed at restraint.[3] In Italy, the growth rate of GDP had indeed accelerated in the first half of the year but was badly cut back by strikes in the second half. In the Netherlands and Norway, industrial production accelerated slightly, but growth of GDP was held down in the Netherlands by the weak level of investment, especially in construction, and by the small increase in agricultural output, and in Norway by adverse conditions in agriculture, fishing and shipping activity.

In 1969, only Ireland, Norway and the United Kingdom recorded growth rates of GDP significantly less than 5 per cent or (together with Italy) growth rates of industrial production of less than 8 per cent. And in most countries the growth rate of GDP was a percentage point or more—in some much more—above the long-term (1953-1967) trend rate; the exceptions again were Italy, Netherlands and Norway where 1969 was about on trend, and the United Kingdom where 1969 was well below trend.[4]

Although data are still incomplete, there is no firm evidence yet that the rate of growth (judged from industrial production indexes) was slowing down up to the end of the year (see table 2). But there are scattered indications, in order books and business tests, of a somewhat slower pace of expansion.

The further burst of expansion in 1969 was quite contrary to the forecasts made a year ago. At that time, the general expectation (as summarized in the 1968 SURVEY) was that in industrial western Europe as a whole total growth of gross domestic product would be about 4½ per

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[1] The expression " industrial western Europe " includes here the following thirteen countries: Austria, Belgium, Denmark, Finland, France, western Germany, Ireland, Italy, Netherlands, Norway, Sweden, Switzerland and the United Kingdom. The south European countries are separately reviewed in section 6 of this chapter.

[2] There was a milder and shorter, but quite widespread, recession in 1962-1963, followed by a peak in 1964 which was not, however, shared by France or Italy.

[3] In Ireland, however, the past growth rate in GDP and in industry would have been maintained, had it not been for a strike in the first quarter of 1969.

[4] The fast growth in 1969 in France (8 per cent GDP) must be seen in the light of the interruptions of output in the summer of 1968. Discounted for that, the growth rate in 1969 would not be much above the long-term rate of about 5 per cent.

TABLE 1

Supply and use of resources

(Percentage changes over previous year, in volume)

For comments on some of the forecasts reproduced below see pp. 130-143

Country and year		*Resources*			*Utilization*							
					Domestic demand a							
						Gross domestic fixed capital formation				*Consumption*		
							Construction					
		GNP at market prices	*Imports of goods and services*	*Total*	*Total*	*Total*	*Residential*	*Other*	*Machinery and equipment*	*Private*	*Public*	*Exports of goods and services*
Austria [b]	1966	4.7	10.4	6.2	6.8	7.1	10.9	4.1	7.7	4.6	3.3	4.2
	1967	3.1	1.2	2.5	1.6	—	1.3	1.5	−1.2	3.2	4.5	5.8
	1968	4.1	8.3	5.2	3.8	−1.2	−0.4	−5.3	0.7	3.6	3.9	10.1
	1969 D	6.5	9.5	7.3	4.5	7.0	3.0		10.5	3.0	3.5	16.0
	1970 D	5.0	10.5	6.5	4.8	8.5	6.0		10.5	5.0	3.0	11.5
Belgium	1966	2.8	8.4	4.4	4.6	6.5	−9.6	16.0	11.6	3.2	4.3	3.8
	1967	3.4	3.5	3.4	2.1	1.1	−5.5	6.0	1.3	6.0	6.0	6.7
	1968	3.8	12.9	6.5	4.5	−1.3	−2.3	3.3	−4.6	4.9	6.8	11.3
	1969 J	6-7	16.5	9-10	6-7	10-12	7-8		16	5-6	5	16.5
	1970 J	4.5-5.5	9.5	6-7	5-6	8.5	. .	. .	. .	5	5	9.5
Denmark [c]	1966	2.5	5.7	3.4	3.4	4.1	2.2	1.0	5.5	4.2	6.0	3.7
	1967	3.8	6.1	4.5	4.0	6.1	19.5	4.2	4.1	3.4	8.1	6.1
	1968	3.8	3.9	3.8	1.9	0.8	−7.5	−0.2	2.8	1.9	5.2	8.9
	1969 D	6.6	15 [d]	9.2	8.5	15	. .	. .	. .	7.0	6.1	11 [d]
	1970 J	3-4	7-8 [d]	4.5-5.5	3-4	. .	. .	. .	. .	1-2	. .	9-10 [d]
Finland	1966	2.3	4.9	2.8	2.0	2.8	5.1	−0.4	5.5	2.6	5.1	6.9
	1967	2.5	−0.5	1.9	1.0	−3.3	1.0	2.7	−12.8	2.1	5.5	5.9
	1968	2.3	−1.6	1.5	−0.9	−3.4	−2.8	−4.9	−1.8	0.2	5.2	12.2
	1969 S	8.0	15.5	9.4	8.7	14.6	16	5	26	6.5	4.5	12.5
	1970 S	6.0	11.5	7.1	6.7	12.0	5		24	5.5	5.0	8.5
France	1966	5.5	13.7	6.5	6.3	8.9	6.4	9.3	10.3	4.7	2.7	8 2
	1967	4.8	7.0	5.1	4.8	5.7	4.7	7.7	4.8	4.8	3.6	6.6
	1968	4.2	10.4	5.0	4.7	5.2	5.3	0.3	8.7	5.0	5.2	7.5
	1969 D	8-8.5	19	9.5-10	9-9.5	9.5-10	. .	. .	. .	7-7.5	4.5	16
	1970 M	5.5	6-6.5	5.5-6	4.0	5-5.5	. .	. .	. .	4.5	2-2.5	14-15
Western Germany	1966	2.3	2.7	2.4	0.4	0.2	4.2		−2.8	3.5	1.0	10.8
	1967	0.2	−0.4	0.1	−2.5	−7.4	−6.4		−8.2	0.6	3.4	9.6
	1968	7.6	16.9	9.7	7.9	8.2	5.7		10.2	3.6	0.2	15.6
	1969 J	8.4	16.2	10.3	9.6	15.7	4.8		24.3	7.7	5.6	12.3
	1970 J	4.5	11.5	6.2	6.3	8.5	6.5		10.5	7.0	4.0	6.0
Ireland	1966	1.2	1.7	1.3	−0.9	−4.3	−6.9	−1.7	−5.3	1.5	0.4	7.4
	1967	4.2	4.2	4.2	1.4	6.7	22.7	5.3	0.9	1.5	5.9	11.1
	1968	4.9	12.5	7.0	7.8	11.0	. .	. .	. .	5.7	2.1	5.9
	1969 D	4	12	6.5	7.0	13	. .	. .	. .	4	3	5.5
	1970 D	4.5	8.5	6	5	. .	. .	. .	. .	5		8

Italy	1966	5.9	13.7	7.0	5.7	4.0	−1.3	2.7	10.3	6.8	3.2	13.2
	1967	6.4	12.6	7.3	7.5	10.5	4.1	9.7	16.7	7.3	2.8	6.2
	1968	5.7	7.3	6.0	4.0	7.4	11.9	5.7	5.1	4.3	4.1	15.4
	1969	5	..	..	..	..	..	..	..	..	..	..
	1970 F	6-7	..	..	..	10	..	..	..	..	..	..
Netherlands	1966	2.6	7.3	4.2	3.5	8.5	7.0	8.1	9.4	3.1	1.6	5.5
	1967	6.1	6.2	6.1	5.7	7.8	15.2	10.3	2.8	5.1	4.1	6.9
	1968	6.2	13.8	8.9	6.6	10.1	8.9	8.9	11.5	5.7	1.8	13.1
	1969 F	5	14	8	4	−0.8	−4.5	..	..	3.5	4.0	16.0
	1970 F	4.5	7.5	5.5	3.5	4.6	5	..	..	5.5	3.0	9.5
Norway[c]	1966	4.4	7.8	5.5	4.9	6.2[e]	4.9		7.2[e]	4.4	2.2	6.9
	1967	5.6	12.3	7.7	6.6	10.1[e]	9.9		10.2[e]	4.4	8.0	10.4
	1968	3.7	−0.4	2.4	−1.2	−6.3[e]	0.2		−11.0[e]	3.8	5.4	10.5
	1969 J	3.9	5.3	4.4	3.9	−2.6[e]	2.9		−7.1[e]	6.0	8.1	5.4
	1970 O	4.7	6.5	5.2	7.6	11.3[e]	4.9		20.9[e]	3.9	2.5	0.5
Sweden[b]	1966	2.8	3.3	2.9	2.2	6.0	−1.7	5.9	11.3	2.3	4.9	5.8
	1967	2.3	3.6	2.6	1.8	4.9	14.5	2.6	2.1	2.8	3.8	5.6
	1968	4.0	8.4	5.0	4.1	−0.9	2.9	−1.6	−3.3	4.3	8.3	8.0
	1969 J	5.0	13.6	6.9	5.5	4.5	−1.6	9.3	3.2	3.9	5.8	11.8
	1970 J	4.3	7.5[d]	4.8	4.0	5.5	−1.0	5.0	9.5	3.5	4.0	8.5[d]
Switzerland	1966	2.9	3.5	3.0	2.0	−0.4	−2.3	−0.7	1.2	2.8	3.7	6.1
	1967	1.8	5.0	2.7	2.1	0.5	−2.6	0.7	2.5	2.9	1.6	4.3
	1968	4.0	8.1	5.2	3.1	3.8	4.1	3.1	4.2	2.9	1.9	10.8
	1969 D	4.7	12.1	6.9	5.0	7.5	7.5		7.5	4.2	4.5	11.8
	1970 D	4	13	7	6	8	..	..	..	5	4.5	9
United Kingdom[b]	1966	2.0	2.4	2.1	1.8	2.6	0.7	0.4	4.6	2.1	2.6	3.8
	1967	1.9	6.0	2.6	3.1	6.9	8.3	8.1	5.6	2.0	4.7	0.1
	1968	3.1	7.1	3.8	2.3	4.1	5.2	4.3	3.3	2.4	0.5	11.5
	1969 F	1.8	2.2	1.9	0.6	−0.1	−8.4	..	..	0.3	0.6	8.0
	1970 F	2.8	3.9	3.0	2.4	4.2	−0.8	..	..	1.7	3.4	5.5

Sources: Data for 1965 to 1968 are from replies to United Nations *Questionnaires on National Accounts* and:

Denmark:	*Statistiske Efterretninger*, No. 5, 27 January 1969, and No. 71, 26 November 1969
Italy:	*I conti economici nazionali e territoriali e l'occupazione regionale, Anni 1965-1968*, supplement to *Bolletino mensile di Statistica*, No. 9, September 1969
Ireland:	The Economic and Social Research Institute, T. J. Baker, *Quarterly economic commentary*, January 1969 (for 1968)
Norway:	*Economic Survey 1969*
Sweden:	*Preliminary National Budget, 1970* in *The Swedish Economy*, No. 1, 1970
United Kingdom:	*National Institute Economic Review*, February 1970

Preliminary results for 1969 and forecasts for 1970 are from:

Austria:	*Monatsberichte des Österreichischen Institutes für Wirtschaftsforschung*, No. 12, December 1969
Belgium:	ECE secretariat estimates based on: Banque Nationale de Belgique, *Rapports 1969*, and Conseil Central de l'Economie, *Avis émis d'initiative par le Conseil sur l'évolution de la situation économique en 1969 et sur les perspectives pour 1970*, Bruxelles, 19 December 1969
Denmark:	*Statistiske Efterretninger*, No. 78, 22 December 1969 and ECE secretariat estimates.
Finland:	*Economic Survey 1969*
France:	Data from *Comptes prévisionnels de l'année 1969 et principales hypothèses économiques pour 1970*, in *Statistiques et Etudes Financières*, No. 250, October 1969, and *Le Monde*, 27 March 1970, roughly adjusted by the ECE secretariat to the SNA system
Western Germany:	*Wirtschaft und Statistik*, No. 1, January 1970 and ECE secretariat estimates based on *Jahreswirtschaftsbericht 1970 der Bundesregierung*
Ireland:	The Economic and Social Research Institute, T. J. Baker, *Quarterly economic commentary*, December 1969
Italy:	Report of Consiglio tecnico-scientifico per la programmazione economica in *24 Ore*, 20 February 1970
Netherlands:	*Centraal Economisch Plan 1970*
Norway:	*Economic Survey 1969*, and *The National Budget of Norway 1970*
Sweden:	*Preliminary National Budget 1970*, in *The Swedish Economy*, No. 1, 1970
Switzerland:	*La situation économique suisse en 1969 et les perspectives pour 1970*, supplement to *La vie économique*, No. 12, December 1969 and OECD, *Economic Surveys, Switzerland*, Paris, January 1970
United Kingdom:	*National Institute Economic Review*, February 1970 (For subsequent official forecast see page 134)

NOTE. — Key to the months in which data were calculated:

S = September 1969
O = October 1969
N = November 1969
D = December 1969
J = January 1970
F = February 1970
M = March 1970

[a] Including stock changes.

[b] Gross domestic product (imports and exports: non-factor).

[c] Gross-gross concept.

[d] Goods only.

[e] Including ships. Data excluding ships are:

	Total GDFCF	*Machinery and equipment*
1966	7.7	11.6
1967	8.9	7.5
1968	0.1	−0.1
1969	4.8	7.3
1970	5.6	6.5

Table 2

Industrial production : quarterly indices (1963=100) and percentage changes

(Seasonally adjusted)

Country	1967				1968				1969				Annual percentage changes			
	I	II	III	IV	I	II	III	IV	I	II	III	IV	1966	1967	1968	1969
Austria	117	118	117	119	122	127	129	128	134	139	143	144	4.6	0.8	7.2	10.7
Belgium	113	111	113	115	116	117	122	122	129	131	132	135 *	2.1	1.4	5.8	10.5 *
Denmark [a]	121	134	120	129	. .	. .	. .	. .	. .	. .	. .	. .	2.6	3.9	4.7	12.0
Finland	124	121	124	125	128	130	130	135	138	142	146	149	4.7	3.8	6.0	9.9
France	119	118	120	123	127	107	131	139	138	142	142	146	7.2	2.3	5.0	12.7
Western Germany	112	111	114	120	120	127	129	135	140	144	143	149	1.7	−2.1	12.0	12.7
Ireland [b]	125	129	129	130	134	142	147	148	139	156	158	163 *	4.8	8.5	11.3	8.0 *
Italy	126	128	127	131	133	135	136	141	143	145	143	134 *	11.6	8.3	6.3	3.5 *
Netherlands	125	126	130	133	137	141	145	151	154	158	163	167	6.0	4.9	10.9	12.6
Norway	126	124	124	129	130	130	132	132	135	137	140	139	4.7	4.5	4.3	4.7
Sweden [b]	127	128	127	130	129	135	137	141	142	147	148	146	3.9	3.0	5.3	7.3
Switzerland	116	116	116	117	119	120	124	127	130	132	140	147 *	4.6	2.5	5.5	12.0 *
United Kingdom	111	112	112	115	117	118	120	122	122	124	123	124	1.8	—	5.3	3.2
EEC	117	116	119	123	125	122	131	137	140	143	143	146 *	5.1	1.5	8.4	11.0 *
EFTA	114	114	115	118	120	122	124	126	127	129	131	131 *	2.8	1.0	5.2	5.3 *
Industrial western Europe	116	115	118	121	123	122	129	133	136	138	139	141 *	4.3	1.3	7.5	9.0 *

Sources: OECD, *Main economic indicators*; and national statistics.

NOTE. — Construction excluded.

[a] Quarterly data refer to the volume of sales in manufacturing, not adjusted for seasonal variations, yearly data refer to the value added in manufacturing.

[b] Mining and manufacturing.

cent—roughly the same or even a little less than in 1968.[5] These forecasts, which were characterized in the SURVEY as somewhat cautious, were based partly on expectations that fiscal and monetary policies would exercise a restraining influence, and partly on an expected slowing down in the growth of world trade, and particularly on a levelling out of United States imports from western Europe (which in fact occurred.) The main reasons why these forecasts proved wrong were:

(*a*) The expansion in *western Germany* gathered strength. The volume of national output rose in 1969 by 8½ per cent (against 7½ per cent in 1968)—more than in any year since 1960—instead of falling, as was officially expected, to between 4 and 5 per cent. The reasons for the acceleration were: first, the rate of export expansion was almost maintained instead of the forecast large reduction [6] (the volume of exports of goods and services rose by about 12 per cent against 15½ per cent in 1968); second, the increase in fixed investment proved much stronger than expected. Partly as a result, the rise in private consumption was also rather faster.

(*b*) As a result, west German imports continued to increase in 1969 about as strongly as in 1968, whereas some slowing down was expected. Merchandise exports to western Germany from the rest of western Europe rose by 26 per cent; increases of much less than 25 per cent are shown only by Denmark, Finland, Sweden, United Kingdom, Italy, Greece and Turkey.[7]

(*c*) The continued fast expansion of west German imports from the rest of western Europe was not, however, the only reason for the increase in intra-west European trade. Indeed, French imports from the rest of western Europe rose even more (by 30 per cent) and imports into the other industrial countries (except Austria, Denmark and the United Kingdom) also increased at high rates. By contrast, Iceland and Turkey reduced their imports from western Europe in 1969.

(*d*) Thus the value of trade among the west European countries increased in 1969 by over 20 per cent, against only 12 per cent in 1968.[8] This increase (which was of the same order as in the previous general economic expansion of 1959-1960) goes far to explain the rapid spreading of the boom. West European exports to the rest of the world rose only moderately—to North America, as was expected, by only 5 per cent (compared with the exceptional rise by nearly a quarter in 1968), to eastern Europe by 12 per cent (8 per cent in 1968) and to all other countries by 13 per cent (9 per cent in 1968). Nearly all west European countries shared in the expansion, with increases of exports to other countries in western Europe of the order of 20 to 30 per cent (substantially less only in Denmark, Ireland, Sweden and Greece).

(*e*) While foreign trade had been an important stimulus in originating the general recovery in 1968, in 1969 the expansion was led, in almost every country, by accelerating growth of private consumption and investment. Only in the Netherlands and the United Kingdom was there a slowing down in the growth of both sectors of domestic demand [9] (accompanied by a corresponding slowing down in their import growth). The development of domestic demand is described in section 3.

Thus two striking features of economic development in 1969 stand out: the accelerating expansion of demand and output contrary to expectations (and sometimes to policy); and the very fast expansion of trade between the west European industrial countries. There is every reason to believe that the chain of cause and effect between these two developments worked both ways: not only did the fast growth of demand and output spread from one country to another through the normal process by which rising output and incomes generate rising imports, but it also seems clear that foreign trade helped, on a much bigger scale than before, to break the bottlenecks in domestic supply which could otherwise have checked the expansion of output. The fast expansion appears to have served to open up new supply possibilities and new trading links part of which can be regarded as broadening the supply base for future expansion.

It is natural that in a time of pressure the impact of fast increasing requirements should fall on the countries with which existing trade connexions are strongest. Hence while west European imports from other west European countries rose by over 20 per cent, their imports from the rest of the world increased by only 12 per cent; it is significant that the value of mutual trade among the Common Market countries—where the growth rate of output was not, on balance, greater than in the rest of western Europe—should have risen by as much as 30 per cent. Non-members shared in this expansion, but few of them proportionally.[10]

Fast expansion led to strains both on the international pattern of payments balances and on domestic costs and prices. On the international front, the outcome was on balance encouraging; the French and west German exchange adjustments, and the delayed recovery of the United Kingdom's trading position, mean that 1970 opened with a far better chance than before of balanced development. By contrast, the impact of demand expansion on costs and prices has created, not unexpectedly, increasingly acute problems of internal balance. These are described in the next section.

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[5] See *Economic Survey of Europe in 1968*, chapter I, page 1 and table 1. The forecasts for 1969 there presented represented the latest available forecasts, official or unofficial, made in the individual countries. At that time, acceleration of growth in 1969 was forecast only for Austria, Denmark, Finland, France and Italy, of the 13 industrial countries.

[6] The last SURVEY did express some doubts about the officially expected slowing down of export growth (page 54).

[7] Here and in next paragraph data refer to the full year.

[8] For more detailed trade figures see tables 12 and 13 and fuller discussion in section 4.

[9] However the growth of consumption, but not of investment, slowed down or remained the same in Austria, Belgium, Ireland and Sweden.

[10] While exports of each of the Six to the other members rose in 1969 by 25 to over 30 per cent, exports to the Six rose by less than 25 per cent from all non-member west European countries except: Austria, Iceland, Ireland, Spain and Turkey (export figures for January-September of 1968 and 1969).

2. EMPLOYMENT, COSTS AND PRICES

(i) Employment

In most of the nine industrial countries for which data are available, total employment increased in 1969 after three or four years of stagnation or even decline (table 3). The increases in 1969 reflected the normal delayed response to the general revival of output growth which had begun about a year earlier. An exception was the United Kingdom, where output growth slackened last year, and employment remained almost constant. The increases in employment in 1969 were generally modest in relation to the fast growth of output and in only few countries were as high as in previous periods of fast expansion of output (1960-1961 and 1963-1964). But in France and western Germany the increases were at least as large as in any earlier year of the decade, although not fully recovering in western Germany from the particularly severe setback in 1967.

Recorded unemployment steadily diminished during 1969 but in most countries remained higher than it was in earlier years of fast expansion. The ratio of unfilled vacancies to unemployment, which is often used to serve as a rough guide to pressures on the labour market, similarly increased in 1969, notably in western Germany (but not in Norway or the United Kingdom). Again, it was only in France and western Germany that this indicator of pressures surpassed earlier levels.

Unemployment [a] 1965 to 1969

(Thousands)

	1965	*1966*	*1967*	*1968*	*1969*
Austria	67	63	66	71	67
Belgium	55	62	85	103	85
Denmark	16.1	18.3	21.8	38.7	31.2
Finland	25.4	29.1	46.2	61.1	52.5
France [b]	142	148	196	254	223
Western Germany . .	147	161	460	323	179
Ireland	29	32	36	37	36
Italy	721	769	689	694	663
Netherlands	25	36	75	68	49
Norway.	13.4	11.9	11.4	16.5	15.6
Sweden	16.6	22.2	28.8	33.4	29.9
United Kingdom . .	308	323	512	541	535

[a] Annual averages.
[b] Registered applicants for jobs.

Fluctuations in manufacturing employment, as in manufacturing output, have as usual been much sharper than in total employment but with a similar time lag—of about a year—behind output. Thus, in 1969, manufacturing employment showed appreciable increases in most countries—as much as 3-6 per cent in Belgium, Denmark, western Germany and Ireland; but there was almost no increase in Switzerland or the United Kingdom. These developments in 1969 followed 3 or 4 years of stagnation or decline in employment. There are several countries where the 1969 level of manufacturing employment was less than it had been in 1965—Austria, Belgium, the Netherlands, Sweden, Switzerland and the United Kingdom; only countries undergoing a rather rapid development of industrialization—Finland and Ireland—and also Italy and Norway, showed a substantial gain in manufacturing employment over the past four years as a whole.

One implication of the greater increase in manufacturing employment than in total employment in 1969 is that employment in other sectors (outside agriculture), and particularly in services, has been relatively stable in spite of increasing output.

Migration movements

In a few countries the increasing demand for labour has been met by immigration. This is particularly true of *western Germany*. Of the increase in total employment—about 460 thousand—two-thirds was met by the resumed recruitment of immigrants (adding 1 per cent to the labour force), and about one-third by reduction in unemployment. The estimates given below suggest that activity rates may also have increased—a normal response to the pressure of demand for labour—but have still not reached the levels attained in the 1965 peak.

Changes in manpower balance: western Germany

(Thousands: annual average)

	1966	*1967*	*1968*	*1969*
Total employed labour force .	−71	−790	50	460
Unemployment	14	298	−136	−145
Total labour force	−57	−492	−86	315
due to:				
natural demographic developments	*−36*	*−24*	*−15*	*15*
activity rates	*−146*	*−238*	*−76*	
foreign workers	*125*	*−230*	*5*	*300*

Sources: Wirtschaft und Statistik and secretariat estimates; 1969 provisional.

Since the turnover of immigrant workers is normally high, the gross movement of workers to and from western Germany must have been much greater.[11]

There were also considerable changes in the national composition of immigrant workers (amounting to over 5 per cent of the total labour force):

Number of foreign workers in western Germany

(in September of each year)

(Thousands)

	1966	*1967*	*1968*	*1969*	*Net change 1966 to 1969*
Total	1 313	991	1 090	1 501	188
of which:					
Italians	391	266	304	349	−42
Spaniards . . .	178	118	116	143	−35
Greeks	195	140	145	191	−4
Turks	161	131	153	244	83
Yugoslavs . . .	50 *	96	119	254	204 *

In *France*, too, immigration reached a new peak in 1969, the number of permanent immigrants placed rising to 159 thousand (93 thousand in 1968). There are also about 130 thousand seasonal workers, the number not varying much. To these must be added " irregular " immigrants, estimated unofficially to number about 200 thousand last year—making a total number of new arrivals (excluding seasonal workers) of the order of 350 thousand.[12] The net addition to the labour force is uncertain, but assuming a rate of repatriation of one-third of the arrivals and adding also a net increase of 90 thousand Algerians, might amount to about 300-350 thousand or 1-1½ per cent of the labour force.

In *Austria*, immigration has developed only in recent years, and the total number of foreign workers in the

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[11] e.g., in 1962-1967 (later figures not available) the number of new work permits granted was 2.3 million, while the net increase in the number of foreign workers was only about 0.5 million.

[12] All figures seem to exclude nationals of EEC countries who are now exempt from official permits.

TABLE 3

Employment, total and in manufacturing

(Annual percentage changes)

Country	*1959*	*1960*	*1961*	*1962*	*1963*	*1964*	*1965*	*1966*	*1967*	*1968*	*1969*
Austria											
Total	0.2	0.6	0.4	−0.1	−0.3	0.1	−0.1	−0.2	−1.3	−1.1	0.1
Manufacturing . .	0.3	2.3	1.7	0.3	−1.3	0.5	0.1	−1.2	−3.0	−1.3	1.0
Belgium											
Total	−0.8	0.5	1.2	1.7	0.9	1.1	0.9	0.4	−0.4	—	1.0 *
Manufacturing . .	−1.8	2.4	2.9	2.0	0.6	1.7	0.1	−0.5	−3.1	−1.6	3.0 *
Finland											
Total	1.7	2.5	4.3	−1.1	1.7	0.2	1.0	0.9	−1.7	−2.0	1.7
Manufacturing . .	2.6	7.4	4.2	2.0	−0.9	0.9	1.4	1.3	0.6	−0.4	4.3
France											
Total	−0.8	—	—	0.2	1.0	1.2	0.3	0.7	0.3	−0.2	1.7
Manufacturing . .	−2.0	0.7	0.8	1.1	2.2	2.1	−0.9	0.6	−0.6	−1.7	2.1
Western Germany											
Total	1.0	1.7	1.3	0.7	0.4	0.4	0.6	−0.3	−2.9	0.2	1.7
Manufacturing . .	1.1	3.8	2.8	0.8	−0.2	0.4	1.9	−0.3	−4.7	1.0	4.7
Ireland											
Total	−0.7	−0.5	−0.2	0.7	0.6	0.5	−0.2	−0.3	−0.3	..	..
Manufacturing . .	0.6	1.8	4.9	3.9	2.2	2.6	1.5	0.5	1.5	2.3	5.9
Netherlands											
Total	1.0	1.0	1.5	2.0	1.3	1.7	0.8	0.8	−0.4	0.6	1.1
Manufacturing . .	1.6	3.8	2.2	2.0	0.7	1.4	0.8	−0.4	−2.5	−0.4	0.5
Norway											
Total	0.4	0.5	1.3	−0.1	1.0	0.7	0.8	0.1	0.8	0.8	0.8
Manufacturing . .	0.9	1.1	2.0	0.8	2.2	1.1	1.9	1.3	0.5	2.1	0.5
Sweden											
Total	0.4	2.2	1.7	0.6	0.4	0.6	0.8	−0.1	−1.7	−0.1	0.7
Manufacturing . .	1.0	4.5	2.7	0.4	−0.3	1.2	0.4	−1.4	−4.1	−2.2	0.5
United Kingdom											
Total	0.3	1.8	1.1	0.6	—	1.1	1.0	0.6	−1.6	−0.8	−0.3
Manufacturing . .	−0.4	4.4	1.4	−0.9	−1.5	1.5	1.2	0.4	−3.0	−1.0	0.4

NOTE. — In principle the above figures relate to total employment including self-employment. They differ in some cases from the employment data for manufacturing in table 7 below (the latter relates to wage- and salary-earners only and also, in several countries, covers only establishments above a certain size).

TABLE 4

Output, employment and output per man by major industrial branches

O = Output, E = Employment (wage- and salary-earners), P = Output per man

(Annual percentage changes)

Country and year		Total manufacturing			Food, drink, tobacco			Textiles and clothing			Chemicals and products			Metal-making			Metal-using		
		O	*E*	*P*	*O*	*E*	*P*	*O*	*E*	*P*	*O*	*E*	*P*	*O*	*E*	*P*	*O*	*E*	*P*
Austria	1965	3.7	0.3	3.4	2.2	0.5	1.7	4.1	−2.0	6.2	8.3	1.6	6.6	−2.8	2.2	−4.9	7.1	1.0	6.0
	1966	4.4	−0.5	4.9	11.3	0.4	10.9	5.1	—	5.1	7.7	−0.6	8.4	1.9	−2.9	4.9	2.4	0.4	2.0
	1967	0.9	−3.1	4.1	1.7	−0.9	2.6	−1.7	−4.6	3.0	5.1	−1.2	6.4	−5.7	−5.1	−0.6	2.5	−2.7	5.3
	1968	7.5	−1.3	8.9	1.6	−1.7	3.4	7.4	−2.5	10.2	11.4	0.3	11.1	12.7	−0.6	13.4	6.4	−0.9	7.4
	1969	11.4	3.4	7.7	3.4	−0.5	3.9	17.9	4.8	12.5	10.9	3.3	7.4	17.8	−1.7	19.8	18.3	5.8	11.8
Belgium	1965	2.5	−0.7	3.2	0.6	−3.1	3.8	0.5	−2.8	3.4	3.7	1.7	2.0	3.5	0.6	2.9	4.3	1.8	2.5
	1966	3.1	−0.6	3.7	4.7	−0.3	5.0	5.1	1.9	3.1	3.1	−1.8	5.0	−0.7	−3.9	3.3	3.5	0.5	3.0
	1967	1.7	−2.2	4.0	5.7	−0.8	6.6	−5.6	−4.7	−0.9	6.7	−1.7	8.5	3.3	−4.2	7.8	1.0	−3.2	4.3
	1968	6.3	−1.6	8.0	2.5	−4.0	6.8	5.6	−2.5	8.3	15.6	2.0	13.3	13.1	−1.1	14.4	2.4	−1.5	4.0
	1969	10.7	4.5	5.9	4.0	—	4.0	10.0	1.6	8.3	6.8	2.2	4.5	12.3	1.7	10.4	14.5	8.2	5.8
Denmark. . . .	1965	6.6	1.7	4.8	..	−1.6	..	..	−2.0	..	..	2.2	..	..	..	..	..	3.1	..
	1966	2.6	−1.7	4.4	..	0.5	..	..	−3.8	..	..	−0.7	..	..	..	..	..	−2.6	..
	1967	3.9	−2.5	6.6	..	−2.4	..	..	−4.1	..	..	−1.5	..	..	..	..	..	−4.2	..
	1968	4.7	−1.3	6.1	..	−2.6	..	..	−0.5	..	..	−0.4	..	..	..	..	..	−1.4	..
	1969	12.0	4.3	7.4	..	0.4	..	..	0.6	..	..	4.9	..	..	..	..	..	7.4	..
Finland	1965	6.9	1.5	5.3	7.4	2.0	5.3	−2.7	−7.0	4.6	10.9	7.0	3.6	20.1	9.7	9.5	7.1	5.0	2.0
	1966	4.8	0.8	4.0	6.5	2.4	4.0	11.2	1.3	9.8	5.4	0.7	4.7	−1.8	1.4	−3.2	2.1	2.1	—
	1967	3.3	0.3	3.0	5.6	1.8	3.7	4.5	—	4.5	8.9	1.3	7.5	0.5	1.5	−1.0	3.1	−0.6	3.7
	1968	6.4	0.6	5.8	3.0	0.8	2.2	−2.9	−1.9	−1.0	6.0	2.2	3.7	23.9	6.0	16.9	11.1	−0.3	11.4
	1969	9.8	4.2	5.4	8.0	..	..	11.5	..	..	2.8	..	..	20.9	..	..	6.6	..	..
France	1965	1.2	−1.5	2.7	..	..	..	−11.1	−5.2	−6.2	9.5	0.8	8.6	−0.9	−1.4	0.5	1.4	−1.3	2.7
	1966	7.6	0.1	7.5	..	..	..	10.5	0.4	10.1	9.8	1.2	8.5	1.2	−4.0	5.4	7.0	0.3	6.7
	1967	3.0	−1.2	4.3	..	..	..	−5.7	−3.7	−2.1	8.9	0.7	8.1	0.3	−4.1	4.6	3.5	−0.3	3.8
	1968	5.4	−2.3	7.9	..	..	..	0.9	−6.6	8.0	10.0	−0.4	10.4	4.4	−4.4	9.2	5.7	−0.9	6.7
	1969	13.0	1.5	11.3	..	..	..	10.8	−1.3	12.3	18.6	2.0	16.3	10.5	−1.1	11.7	13.0	3.4	9.3
Western Germany	1965	6.1	2.3	3.7	4.3	−0.2	4.5	5.6	0.2	5.4	10.1	3.3	6.6	1.2	2.2	−1.0	6.9	3.5	3.3
	1966	1.7	−0.5	2.2	3.1	0.2	2.9	0.6	−0.3	0.9	10.1	1.4	8.6	−4.8	−4.1	−0.7	−0.4	−0.3	−0.1
	1967	−2.2	−6.1	4.2	2.2	−2.8	5.1	−7.9	−8.7	0.9	7.8	−1.0	8.9	0.6	−6.7	7.8	−7.1	−6.4	−0.7
	1968	12.5	1.3	11.1	5.6	−0.4	6.0	14.3	−0.5	14.9	15.6	0.4	15.1	15.9	—	15.9	12.4	2.4	9.8
	1969	13.1	5.7	7.0	4.1	1.0	3.1	9.7	4.0	5.5	12.7	5.8	6.5	13.4	3.3	9.8	19.2	7.9	10.5
Ireland	1965	4.2 ^{a}	0.5	3.7	2.9	0.8	2.1	1.8	−1.5	3.3	16.0	2.3	13.4	..	..	..	5.4 ^{b}	1.4	3.9
	1966	4.8 ^{a}	1.1	3.7	3.7	0.7	3.0	1.8	—	1.8	17.1	11.2	5.3	..	..	..	1.7 ^{b}	2.1	−0.4
	1967	8.5 ^{a}	1.5	6.9	7.2	2.0	5.0	8.0	2.1	5.8	22.9	3.2	19.1	..	..	..	2.5 ^{b}	−0.4	2.9
	1968	11.3 ^{a}	1.5	9.7	5.0	−0.4	5.4	10.7	2.0	8.5	17.5	4.2	12.8	..	..	..	16.3 ^{b}	3.1	12.8
	1969	8.0 ^{a}	5.4	2.5	2.6	3.6	−1.0	4.4	6.4	−1.9	14.7	7.0	7.2	..	..	..	7.7 ^{b}	7.5	0.2

Country and year		Total manufacturing			Food, drink, tobacco			Textiles and clothing			Chemicals and products			Metal-making			Metal using		
		O	*E*	*P*	*O*	*E*	*P*	*O*	*E*	*P*	*O*	*E*	*P*	*O*	*E*	*P*	*O*	*E*	*P*
Netherlands . .	1965	5.0	1.2	3.8	2.8	−2.0	4.9	−3.8	−3.5	−0.3	15.6	2.5	12.8	8.8	5.0	3.6	3.7	2.0	1.7
	1966	5.2	−0.3	5.5	1.8	—	1.8	2.2	−3.5	5.9	12.8	2.5	10.0	4.8	—	4.8	4.3	1.0	3.3
	1967	3.8	−3.2	7.2	7.2	−1.0	8.3	−7.5	−9.5	2.2	11.3	3.0	8.1	7.7	−4.0	12.2	2.5	−3.5	6.2
	1968	9.3	−0.4	9.7	4.2	—	4.2	8.3	−4.5	13.4	24.9	2.5	21.9	10.7	3.5	7.0	6.5	1.5	4.9
	1969	10.5	1.3	9.1	3.7	—	3.7	4.3	−2.0	6.4	17.8	3.5	13.8	19.4	6.5	12.1	11.8	3.0	8.5
Norway	1965	5.9	1.7	4.1	5.0	1.3	3.7	−3.7	−4.6	0.9	13.2	4.9	7.9	11.0	3.8	6.9	6.0	3.9	2.0
	1966	5.5	1.8	3.6	8.4	2.9	5.3	3.5	−2.6	6.3	11.7	3.8	7.6	3.5	2.5	1.0	6.0	3.7	2.2
	1967	3.8	1.0	2.8	−2.4	−1.0	−1.4	−0.8	−2.0	1.2	2.2	0.8	1.4	6.2	2.4	3.7	4.9	3.6	1.3
	1968	2.9	−0.3	3.2	2.4	−0.1	2.5	−7.0	−6.3	−0.7	4.4	−2.8	7.4	13.5	—	13.5	0.5	0.2	0.3
	1969	5.6	1.1	4.5	4.0	1.7	2.3	1.1	−3.0	4.2	4.1	−4.0	8.4	8.5	3.2	5.1	4.8	2.2	2.5
Sweden	1965	8.2	1.1	7.0	2.4	−1.2	3.6	−1.7	−5.5	4.0	11.1	3.3	7.6	9.7	3.1	6.4	11.1	2.4	8.5
	1966	4.5	−0.7	5.2	5.4	0.1	5.3	−4.4	−9.2	5.3	11.1	1.9	9.0	0.6	−0.5	1.1	7.8	1.1	6.6
	1967	3.0	−3.5	6.7	3.1	−1.4	4.6	3.4	−5.4	9.3	12.5	−0.5	13.1	1.7	−5.5	7.6	0.5	−4.1	4.8
	1968	4.7	−1.5	6.3	3.0	−1.0	4.0	−2.3	−5.1	3.0	12.0	−4.8	17.6	7.5	−1.5	9.1	4.3	−1.3	5.7
	1969	9.0	1.0	7.9	1.8	−0.7	2.5	6.1	−1.8	8.0	14.8	4.2	10.2	9.1	−0.6	9.8	9.3	4.6	4.5
Switzerland . .	1965	3.8	−0.9	4.7	3.8	−1.3	5.2	1.7	−2.8	4.6	1.5	0.9	0.6	. .	. .	. .	0.8 [b]	−0.8	1.6
	1966	4.1	−2.1	6.3	0.7	−1.1	1.8	2.0	−4.7	7.0	13.9	—	13.9	. .	. .	. .	0.2 [b]	−2.1	2.3
	1967	2.2	−0.8	3.0	4.3	0.7	3.6	−1.1	−2.4	1.3	3.5	3.1	0.4	. .	. .	. .	3.8 [b]	−1.3	5.2
	1968	5.9	0.2	5.7	4.1	−0.2	4.3	2.5	−2.2	4.8	13.0	4.5	8.1	. .	. .	. .	5.7 [b]	0.2	5.5
	1969	12.0	0.5	11.4	6.6	−0.3	6.9	5.4	−0.9	6.4	24.4	5.8	17.6	. .	. .	. .	13.8 [b]	1.3	12.3
United Kingdom	1965	3.4	2.5	0.9	2.9	0.7	2.2	2.2	−1.7	4.0	6.6	1.4	5.1	4.3	1.7	2.6	3.6	2.2	1.4
	1966	1.6	—	1.6	3.8	0.2	3.6	−0.4	−1.8	1.4	5.4	1.5	3.8	−5.8	−2.2	−3.7	3.3	0.8	2.5
	1967	—	−2.8	2.9	1.8	−0.9	2.7	−3.1	−6.1	3.2	4.7	−2.0	6.8	−5.9	−4.9	−1.1	−1.4	−2.2	0.8
	1968	6.1	−1.0	7.2	3.6	−1.6	5.3	9.7	−1.7	11.6	7.4	−2.6	10.3	5.5	−1.7	7.3	6.2	−1.3	7.6
	1969	3.5	0.4	3.1	2.2	0.6	1.6	2.2	0.3	1.9	6.6	0.6	6.0	3.2	1.1	2.1	4.9	0.8	4.1

Sources: For output: OECD, *Industrial production, quarterly supplement to main economic indicators*; and national statistics. For employment: national statistics.

NOTE. — Since index numbers of industrial production commonly exclude handicraft and small enterprises, the corresponding series for employment of wage- and salary-earners have been used. Therefore employment data in this table differ slightly from data in table 7, which include all wage- and salary-earners employed. National production indices are usually one or two months ahead of equivalent employment data. In this table production and employment series are shown wherever possible for comparable periods; consequently the production data for 1969 are not always the most recent ones.

[a] Data refer to mining and manufacturing.

[b] Metal-making and using for all years.

country rose to 64 thousand in September 1969 (58 thousand a year before); of the total, about three-quarters are Yugoslavs and 13 per cent are Turks. In *Sweden* net immigration began again (it was negligible in 1968), the number of foreign workers probably rising by about 20 thousand in 1969.

The inflow of foreign workers into *Switzerland* has been restricted since 1964. The total number subject to control, after having decreased for three consecutive years, rose moderately in 1968 and 1969. In the meanwhile, however, the number of foreign workers in the country who have been freed from official permits has increased gradually. Including these, the total number of foreign workers—now 28 per cent of the labour force—has in effect increased by 37,000 (or 5 per cent) since 1964, while the total labour force has remained practically stable.

Switzerland : foreign workers

(Thousands; monthly average)

	1964	*1967*	*1968*	*1969*
Total foreign labour force . .	727	713	732	764
of which:				
under control	637	589	593	612
permanently established . .	90	124	139	152

In view of the failure of previous efforts to reduce the number of foreigners, the Federal Council decided in March 1969 to apply another 2 per cent reduction in the foreign labour force. This reduction does not, however, apply to a number of important activities (agriculture, hotels and catering, hospitals, domestic services), nor can it be strictly applied to very small enterprises.

TABLE 5

Manufacturing : Man-hours worked and output per man-hour, wage-earners only

(Annual percentage changes)

Country	*Man-hours worked*			*Output per man-hour*			*Number of months covered in 1969*
	1967	*1968*	*1969*	*1967*	*1968*	*1969*	
Austria [a]	−5.5	−1.4	2.8	6.5	8.8	7.3	9
Belgium	−4.6	−1.6	3.3	6.6	8.0	7.7	9
Denmark	−5.0	−3.8	4.1	9.4	8.8	7.6	9
Finland	−5.1	−1.7	. .	8.9	8.2	. .	12
France	−2.2	−2.4	1.9	5.3	8.0	10.9	12
Western Germany	−9.7	3.7	5.8	8.3	8.5	6.9	12
Ireland [a]	1.6	1.4	5.1	6.8	9.8	2.3	9
Italy	4.8	1.9	. .	3.6	4.2	. .	12
Netherlands	−5.3	−1.4	0.1	9.6	10.9	10.1	9
Norway	−0.9	−3.8	. .	4.7	7.0	. .	12
Sweden	−5.9	−4.0	−0.7	9.5	9.1	10.1	9
Switzerland	−1.4	−0.8	−0.2	3.7	6.8	12.2	12
United Kingdom	−5.0	−1.1	0.3	5.3	7.3	3.2	12

Sources: OECD, *Main Economic Indicators—Supplement, Industrial Production*; and national statistics.

NOTE. — The data for man-hours worked have been taken from national sources, and the figures for output per man-hour have been derived by dividing the change in output by the change in man-hours worked.

Where data for 1969 are not available, the series for man-hours worked have been calculated by multiplying the change in employment by the change in average hours worked per man.

[a] Including mining.

(ii) Productivity in manufacturing

The year 1968, the first year of a general speeding up of output expansion, was marked by very substantial productivity gains in manufacturing industry (see table 4 showing changes in output, employment and output per worker, based on annual averages: for corresponding figures of output per man-hour, for wage-earners only, see table 5). In 1969, the increase in productivity continued; but although output expansion speeded up (or was maintained, as in western Germany, at a very fast rate) employment generally increased rather more and the rate of increase in productivity diminished.[13] The fast increase of productivity in the first year of output acceleration, when fuller use can be made of the existing complement of workers, and the subsequent lagged adjustment of employment to the further increase in output, are familiar features of the cyclical pattern. From chart 1 (taking the solid line) experience in 1968-1969 can be compared with the similar pattern of development in 1959-1960. Nevertheless, the manufacturing productivity gains in 1969 are impressive: 7-8 per cent or more in Austria, Belgium, France, western Germany, Netherlands, Sweden and Switzerland. If the two years 1968 and 1969 are taken together, the average productivity increase was 6 per cent a year or more almost everywhere (reaching 8 to 10 per cent a year in Austria, France, western Germany, the Netherlands and Switzerland—the countries where the increases in manufacturing output were greatest in this period).

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[13] The only exceptions to this pattern of development are: France, where an acceleration of productivity gains in 1969 was in part the consequence of the interruption of output in 1968; Sweden, where there was a remarkably large productivity increase in 1969, especially in textiles and chemicals; and the United Kingdom, where both output and productivity gains fell off in 1969.

The relation between year-by-year changes in output and productivity, in manufacturing as a whole, may be seen in a longer perspective. A regression analysis of experience over the period 1954 to 1968 shows for each country (A) the annual "autonomous" increase in productivity (i.e. the percentage increase associated with no increase in output) and (B) the annual percentage increase in productivity associated with a 1 per cent increase in output.[14]

	A	*B*	*r*	*Standard error of estimate*
Austria	2.08	+ 0.53	0.83	1.54
Belgium	1.09	+ 0.71	0.81	1.93
Denmark	0.57	+ 0.50	0.78	1.46
Finland	1.77	+ 0.35	0.82	1.34
France	1.62	+ 0.61	0.67	1.35
Western Germany .	1.67	+ 0.49	0.78	1.85
Ireland	1.17	+ 0.52	0.81	1.38
Italy.	1.51	+ 0.58	0.76	1.68
Netherlands	1.74	+ 0.57	0.78	1.47
Norway	0.24	+ 0.77	0.88	1.42
Sweden	1.80	+ 0.58	0.71	1.72
United Kingdom . .	0.71	+ 0.67	0.82	1.65

These equations provide a background for observing the importance of deviations from the normal relationship of productivity gains to output changes at different points in the cycle. Chart 1 compares the actual productivity increases with those calculated from the equations. Not only are actual productivity changes more volatile than the estimated ones—rising more in years of fast expansion and less in years of slow expansion than can be explained by average experience over the whole cycle; but also it is generally apparent that bigger than estimated increases in productivity occur in the first phase of output expansion (as in 1959 and 1968), slackening off later (in 1960 and 1969), while the increases in productivity are below the calculated increases at the beginning of a period of slowing down in output.

The differences between the national parameters are considerable. Some countries, notably Austria and western Germany, show a large "autonomous" increase in productivity (the constant A in the equation) associated with a low coefficient of productivity against output changes (B); this means a comparatively sensitive, or rapid, adjustment of employment to changes in the rate of output. The reverse case (Denmark, the United Kingdom, Norway, with low A's and high B's) implies a tendency for employment to remain comparatively stable, or to respond only with some delay, to changes in the rate of output expansion.

Chart 1 also shows how positive deviations (actual productivity gains greater than the estimated ones) have tended to appear not only in 1968 but also in two or three preceding years. For example, the productivity gain in western Germany in 1967—a year when output showed no increase at all—was substantially greater than the equations suggest.[15] It may also be observed that the positive deviations of productivity in 1968 were, in several countries, markedly greater than in 1959 (the previous year of comparable rates of expansion of output). It can also be seen that the positive deviations tended to disappear in 1969 (although not in all countries, e.g. Sweden), confirming that the peak of productivity gains has been passed.

Taking a longer-term view, chart 2 also provides some indications of whether there has been, over the past 10-15 years, any tendency for productivity gains to accelerate, or slow down, in relation to output changes. An acceleration would be reflected in a regular excess of actual productivity gains over estimated ones towards the end of the period (and corresponding deficiencies at the beginning). Such an acceleration is indeed suggested by the relationships between the two curves for western Germany and Sweden, and, to a less extent, by the curves for Austria, Denmark, the Netherlands and, perhaps, by those for the United Kingdom.

Output and productivity by manufacturing branches

It is broadly true that the pattern of productivity increases between major groups of manufacturing branches shows the same positive correlations between annual output growth and productivity gains (although many individual exceptions can be found). Thus one of the striking features of 1968-1969 was the more than proportional expansion of the metal-making group, reflecting the market pressures not only for iron and steel but also for non-ferrous metals. The output increases started in 1968 when the industries concerned were working well below capacity; it was only in 1969 that they began to have an impact on employment and even then not in all countries (e.g. France).

Apart from the familiar exaggeration of the cycle in metal-making—and evidence of the same development in certain branches of chemicals and textiles[16]—the relative increases in output between the major industry groups were approximately what would be expected. The big increases in output in the metal-using industries in 1969 demonstrate the impact of the general rise in fixed investment in western Europe, affecting not only domestic demand in the individual countries but also exports of capital goods.

Developments in Norway show a pattern which is somewhat different from the general experience. In Nor-

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[14] A similar exercise was presented in the Survey for 1968 (see chapter I, page 29) for a smaller number of countries and for the period 1958 to 1967. There are some differences in the results due mainly to the longer period.

[15] This may of course indicate only that the linear form of equation is inadequate to deal with an actual decline in output such as occurred (for the first time in western Germany) in 1967. Also the recovery in output in western Germany began in the middle of 1967, with very large productivity gains shown by quarterly data.

[16] The strength of the stock building cycle in textiles is exemplified by the slowing down in 1969 of output of textiles and clothing in the United Kingdom after fast growth in 1968.

CHART I

Output per person employed in manufacturing; actual and calculated values

(Annual percentage changes 1954 to 1969)

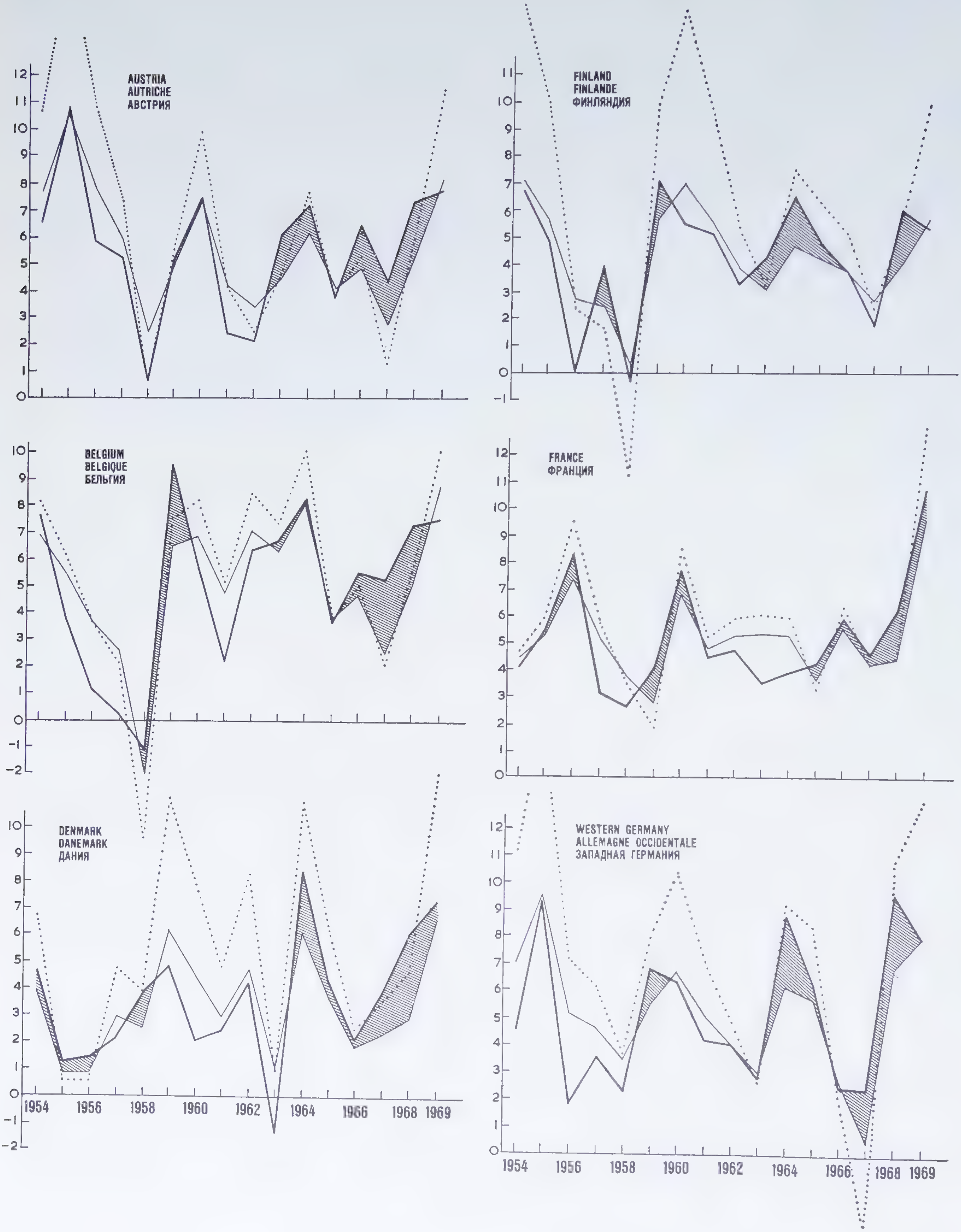
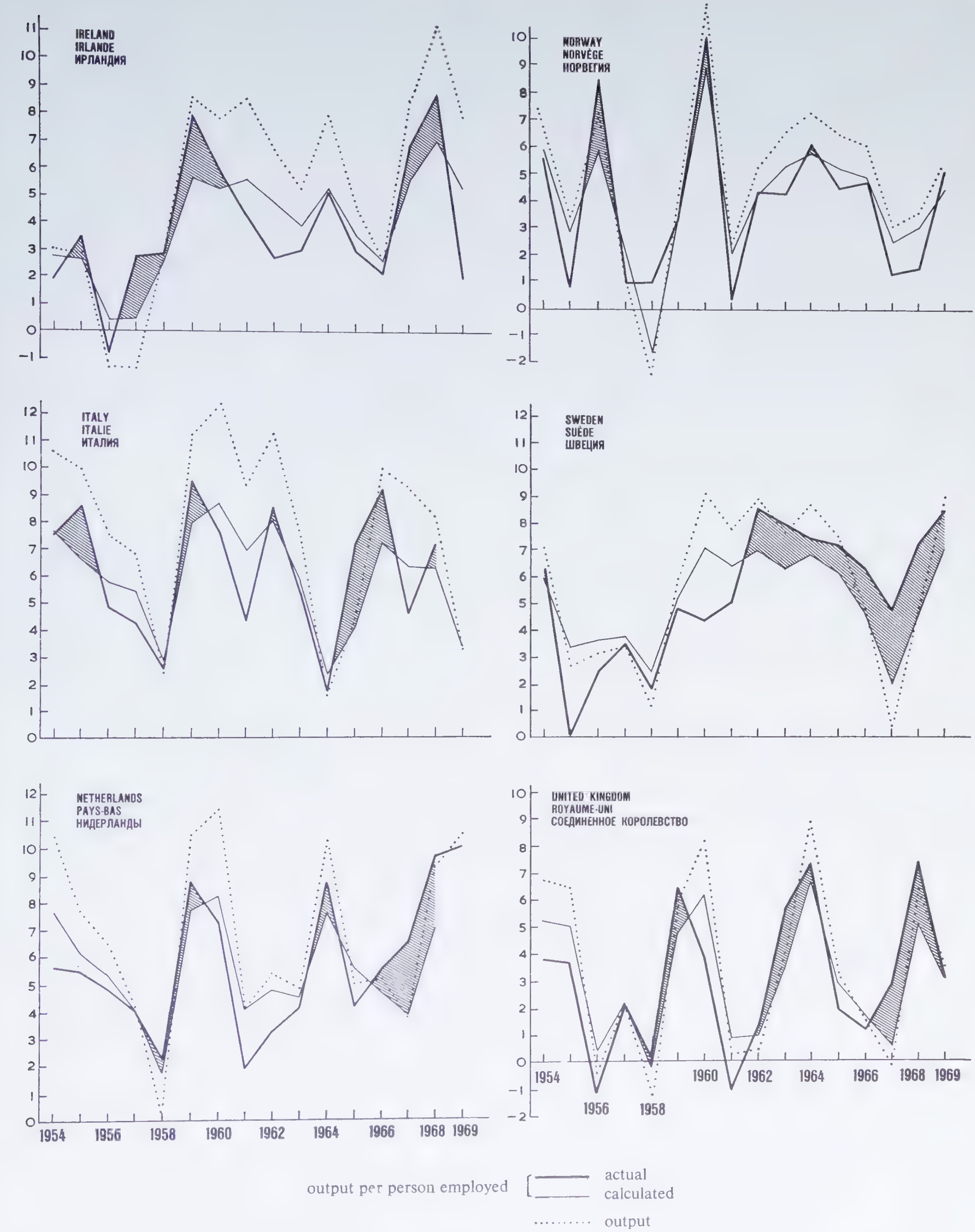


CHART I *(continued)*



Sources: for output: United Nations, *Yearbook of National Accounts Statistics* and corresponding questionnaires; OECD, *National Accounts of OECD Countries* and corresponding questionnaires; and national statistics. For employment: national statistics.

NOTE. — The yearly changes in output are national accounts data, based on the contribution of manufacturing to GDP, in constant prices; except for the Netherlands, where output data are based on the short-term index of manufacturing production. The preliminary output figures for 1969 for all countries are derived from such indices. Employment data refer to the labour force employed in manufacturing. Calculated values for output per person employed have been derived from the equations shown on page 97 of this chapter.

way, unlike most other countries, the expansion of manufacturing output and productivity in 1968-1969 was no faster than the long-term trend, the productivity increase in these two years being under 4 per cent a year. The structural pattern of Norwegian manufacturing is however changing with special rapidity (see table 4). In textiles and clothing and some other consumer goods, output has for some time been declining with falling or stagnant employment and modest gains in productivity. In strong contrast, productivity in chemicals and metal manufacture, and perhaps in some individual branches of metal-using, has advanced quite fast. Norway may well be a case where the process of structural transformation has a greater importance—over a short period—than the relatively mild cyclical fluctuations.

Output per man-hour (see table 5)

On the whole, average working hours in manufacturing did not increase much in 1969, except in France and western Germany. There has however been a fairly general trend towards reduction of the standard working week. Thus in Norway, perhaps an extreme case, the standard week was reduced in mid-1968 from 45 to 42½ hours, and actual hours worked fell by a similar proportion in the second half of the year. In 1969, employment rose by 1 per cent, with no increase in the number of man-hours worked. In Austria, Belgium and the Netherlands, also, total employment increased more than total man-hours put in by wage-earners.[17]

Broadly speaking, the figures of annual variations in output per man-hour in table 5 are in conformity with the more comprehensive data on annual productivity in table 4. Annual changes in hourly productivity of wage-earners were somewhat larger than those in annual productivity of all employees; both the hours worked by wage-earners and the numbers employed tend to be more variable than the hours and numbers of salaried employees.

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[17] In many countries, data on man-hours worked refer only to establishments above a certain size, while the employment estimates relate in principle to all establishments.

(iii) Pay and labour costs

If the peak of productivity gains in the present cycle has already been passed, the peak of labour cost increases has probably not yet arrived. In 1968, pay increases in manufacturing industry were in most countries approximately absorbed, or more than absorbed, by productivity gains (except for France, Denmark, Norway and the United Kingdom). The provisional data for 1969 tell a rather different story. While productivity increases generally fell off, pay increases on the whole accelerated; increases in unit labour costs (described in more detail below) became much more frequent and are likely to spread more widely in 1970.

In nine out of the thirteen industrial countries, hourly wage-earnings in manufacturing increased substantially more in 1969 than in 1968; in two (Denmark and Switzerland) the increase was about the same as the year before; the only countries in which the increase in wage-earnings slowed down were Finland and France, after the quite exceptional increases in 1968 (see table 6).

Taking together the two years of the present cyclical upswing, 1968 and 1969, average hourly earnings rose by only 5 or 6 per cent a year in Austria, Italy and Switzerland, but by 10 or 11 per cent in Denmark and Ireland, with the other countries falling in between. A broadly similar pattern emerges from the more comprehensive (but also more provisional) data of increases in average annual wages and salaries in manufacturing[18] (table 7).

Two points emerge from the historical series shown in table 7. First, a comparison of annual changes in production and in average pay shows a tendency for the peaks of pay increases to follow the peaks of output increases by about a year. To establish a precise lag from annual data is impracticable, but it is very clear that the rate of increase in average pay has rarely slowed down appreciably until well after peaks of output expansion have been passed. Secondly, there is evidence that in some countries—Belgium, Denmark, Finland, France, the Netherlands and the United Kindgom—pay increases in the present upturn have been rather greater than in the previous general upturn of 1959-1960. But for the most part increases in 1968-1969 have not been greatly in excess of previous experience in a similar cyclical phase.

At the end of 1969, wage pressures were intensifying in a number of countries. This is particularly noticeable in *western Germany*; the major contract renewals, in the last quarter, led to increases of the order of 10 per cent a year and set the pace for the additional agreements negotiated in early 1970 (in the fourth quarter of 1969, average wage-earnings were 12 per cent up on the fourth quarter of 1968—among the biggest increases during the year in western Europe; see table 6). Similarly the end of 1969 saw the troubled end of the rather moderate development of wages in Italy, with contract renewals, notably in engineering, implying increases in 1970 of the order of 15 per cent in hourly earnings.[19] The pace of wage expansion is likely to be intensified by the general use of cost-of-living sliding scales (which has already in the first quarter of 1970 added another 1½ per cent to wage rates). In the *United Kingdom*, too, some of the agreements concluded in the second half of 1969 provided increases in basic pay rates much in excess of the 8 per cent average increase

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[18] The figures for 1969 in table 7 come largely from national estimates of the total wage and salary bill, in some cases prepared before the end of the year; they may not always take full account of accelerations in pay increases at the end of 1969.

[19] New contracts, mostly for 1970-1972, made at the end of 1969 covered about 5 million workers (the largest number in engineering) and provided increases of 25-30 per cent in pay rates over the three-year period, together with a reduction in working hours. The major part of the increase will occur at the beginning of 1970. Negotiations are in progress for other branches.

TABLE 6

Hourly earnings in manufacturing, wage-earners only

(Quarterly indices (1963 = 100) and annual percentage changes)

Country	1967				1968				1969				Annual percentage changes				No. of months covered in 1969 [a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	1966	1967	1968	1969	
Austria [b]	136	138	140	142	143	149	149	149	149	156	160	162	8.1	6.4	6.1	7.7	12
Belgium	141	143	143	147	146	150	151	156	158	161	164	169 *	10.3	6.7	5.4	8.0	12 *
Denmark [c]	143	150	149	153	156	165	169	174	176	184	186	. .	11.8	9.1	11.6	11.0	9
Finland	141	145	147	148	156	158	164	165	172	173	174	174	7.9	8.4	10.9	7.0	12
France [d]	126	. .	130	. .	135	. .	147	. .	152	155	159	162 *	5.5	6.8	10.2	8.5 [e]	12 *
Western Germany	131	132	133	133	134	136	141	142	144	148	151	159	7.3	3.9	4.3	9.0	12
Ireland	134	137	137	141	143	147	151	155	160	166	. .	. .	9.2	7.7	8.5	12.5	6
Italy	130	131	132	133	135	137	139	140	143	149	153	155 *	3.9	6.0	4.6	7.5 [e]	12 *
Netherlands [f]	. .	143	. .	149	. .	154	. .	161	. .	173	. .	177 *	8.3	6.6	8.0	11.0	12 *
Norway [g]	130	135	137	139	139	142	150	154	156	160	160	164 *	7.4	7.9	8.1	9.5	12 *
Sweden [g]	136	141	139	141	145	149	148	151	154	159	158	167	7.7	9.9	6.3	7.8	12
Switzerland [h]	—133—		—137—		—142—		—145—		—149—		—. .—		7.7	6.4	4.9	4.7	6
United Kingdom [f]																	
wage-earners	. .	128	. .	132	. .	137	. .	141	. .	147	. .	153 *	7.7	3.7	6.8	8.0	12 *
all employees [i]	122	126	127	129	134	136	137	140	144	147	148	152	6.1	3.3	8.5	8.0	12

Sources: National statistics.

[a] The comparison is for the corresponding period of the previous year.

[b] Refers to industry including construction, Vienna region.

[c] Refers to manufacturing, construction, transport and some services.

[d] Refers to manufacturing including construction. Averages of March and September surveys.

[e] Wage rates.

[f] Quarterly figures refer to April and October; yearly figures are based on the averages of these two months.

[g] Refers to mining and manufacturing.

[h] Refers to industry, handicraft, commerce, banks and insurance and private transport.

[i] Average weekly earnings, all employees, Great Britain.

TABLE 7

Manufacturing : Output, wage and salary bill, employment, average pay, and unit labour costs

(Annual percentage changes)

1. Output; 2. Wage and salary bill; 3. Wage- and salary-earners employed; 4. Wage and salary bill per wage- and salary-earner (2:3); 5. Labour cost per unit of output (2:1).

Country		*1954*	*1955*	*1956*	*1957*	*1958*	*1959*	*1960*	*1961*	*1962*	*1963*	*1964*	*1965*	*1966*	*1967*	*1968*	*1969 a*
Austria [b]	1.	10.7	16.2	| 4.6	5.7	2.0	5.3	11.0	4.7	1.8	4.3	7.5	4.2	4.2	0.6	7.3	11.4
	2.	11.8	15.4	10.9	7.8	6.4	4.4	12.3	12.0	7.7	4.4	9.0	9.0	11.4	4.1	4.8	9.4
	3.	5.9	7.8	4.8	1.8	0.1	−0.4	3.2	2.7	1.1	−1.4	−0.2	0.1	−0.7	−3.3	−1.7	3.1
	4.	5.6	7.0	5.9	5.8	6.4	4.8	8.8	9.0	6.6	5.9	9.2	8.9	12.2	7.7	6.6	6.1
	5.	1.0	−0.7	6.1	1.9	4.3	−0.9	1.1	7.0	5.8	0.2	1.4	4.6	6.9	3.4	−2.4	−1.8
Belgium	1.	8.2	6.2	3.6	2.1	−4.4	7.6	8.2	5.1	8.5	7.3	10.0	3.8	5.1	2.0	5.6	10.7
	2.	4.1	6.3	8.9	8.2	−1.1	1.6	8.0	6.3	9.4	10.2	13.6	8.7	8.7	3.5	5.8	12.0
	3.	0.7	3.0	2.6	2.7	−4.5	−2.1	3.3	3.4	2.2	1.2	3.1	0.1	−0.2	−3.0	−1.3	4.5
	4.	3.4	3.2	6.2	5.4	3.5	3.7	4.5	2.9	7.1	8.9	10.1	8.6	8.9	6.7	7.2	7.2
	5.	−3.8	0.1	5.2	6.0	3.4	−5.6	−0.1	1.1	0.9	2.7	3.2	4.8	3.4	1.4	0.2	1.2
Denmark	1.	6.7	0.6	0.6	4.8	3.9	11.1	7.9	4.8	8.3	0.9	10.9	6.2	2.6	3.6	4.7	12.0
	2.	8.6	4.3	6.0	8.5	5.3	12.1	11.9	| 12.0	13.2	6.7	11.7	12.8	8.6	6.1	9.7	11.0
	3.	4.0	−1.0	−0.6	2.7	1.2	7.6	6.2	| 2.7	2.5	−0.2	1.7	| 1.9	−1.7	| −2.5	−1.3	4.4
	4.	4.4	5.3	6.6	5.6	4.0	4.2	5.4	| 9.0	10.4	6.9	9.8	| 10.7	10.5	| 8.8	11.2	6.3
	5.	1.8	3.7	5.4	3.5	1.4	0.8	3.8	| 6.9	4.6	5.7	0.7	6.2	5.9	2.5	4.8	−0.9
Finland	1.	13.5	9.9	2.4	1.6	−3.8	9.9	13.3	9.5	5.4	3.3	7.4	| 6.2	5.1	2.3	5.6	9.8
	2.	9.8	10.5	11.2	5.0	1.6	9.2	15.8	12.9	8.4	6.6	14.6	11.8	9.1	7.9	11.5	11.5
	3.	7.3	5.1	2.8	−2.3	−3.5	2.9	8.0	4.5	2.1	−0.8	1.0	1.6	1.3	0.6	−0.2	4.2
	4.	2.4	5.1	8.1	7.5	5.3	6.1	7.2	8.0	6.1	7.5	13.4	10.0	7.6	7.3	11.8	7.0
	5.	−3.3	0.5	8.6	3.3	5.6	−0.6	2.3	3.1	2.9	3.2	6.7	| 5.2	3.8	5.5	5.6	1.5
France	1.	4.6	5.9	9.4	5.8	3.5	1.9	8.5	5.3	5.9	6.1	6.0	3.3	6.4	4.2	4.5	13.0
	2.	. .	. .	. .	. .	. .	. .	12.9	11.9	10.5	13.3	6.0	10.2	8.9	| 6.8 [c]	10.7 [c]	15.8 [c]
	3.	. .	. .	. .	. .	. .	. .	1.1	1.2	1.6	2.9	2.3	−0.7	0.7	. .	. .	. .
	4.	. .	. .	. .	. .	. .	. .	11.6	10.6	8.7	10.1	3.6	10.9	8.2	. .	. .	. .
	5.	. .	. .	. .	. .	. .	. .	4.1	6.3	4.3	6.8	0.1	6.7	2.4	| 2.5	6.0	2.5
Western Germany	1.	11.1	16.2	7.2	6.1	3.7	8.0	10.4	| 7.1	4.9	2.7	9.3	8.4	2.2	−2.4	10.8	13.1
	2.	9.7	15.3	13.9	7.3	7.1	7.1	15.8	| 13.4	11.5	6.1	10.4	11.7	6.6	−2.5	9.0	15.6
	3.	5.2	7.9	5.5	2.8	0.7	0.9	4.5	| 3.3	0.9	−0.4	0.8	2.1	−0.2	−5.5	0.7	5.1
	4.	4.2	6.8	7.9	4.4	6.4	6.2	10.9	| 9.8	10.5	6.4	9.5	9.4	6.9	3.2	8.2	10.0
	5.	−1.3	−0.8	6.3	1.1	3.3	−0.9	4.9	| 5.9	6.3	3.3	1.0	3.0	4.4	−0.1	−1.6	2.2
Ireland [b]	1.	3.3	4.1	−2.0	−0.8	1.9	10.3	7.2	9.0	6.4	5.0	7.7	4.2	4.8	8.5	| 11.3	8.0
	2.	5.4	6.1	4.6	1.0	5.7	6.9	10.5	11.1	13.0	8.2	14.0	5.3	9.8	9.7	10.3	13.2 [d]
	3.	2.2	1.8	−1.4	−2.9	0.3	1.9	4.4	4.6	3.3	2.8	2.3	0.5	1.1	1.5	1.5	5.4
	4.	3.1	4.2	6.1	4.1	5.4	4.9	5.8	6.2	9.3	5.2	11.4	4.7	8.7	8.0	8.7	7.4
	5.	2.0	1.9	6.7	1.8	3.7	−3.1	3.0	1.8	6.2	3.0	5.8	1.1	4.8	1.1	| −0.9	4.8

Country		1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969 *a*
Italy	1.	10.6	8.9	7.5	6.8	2.5	11.2	12.4	9.4	11.3	7.5	1.5	4.4	9.9	8.4	8.2	3.3
	2.	9.2	8.3	10.2	8.5	5.5	6.7	14.8	13.0	17.8	22.9	6.9	1.2	6.9	15.5	6.3	. .
	3.	3.4	0.4	2.8	2.8	0.2	2.0	6.5	6.1	3.6	2.8	—	−3.1	0.5	4.6	1.0	. .
	4.	5.7	7.9	7.2	5.6	5.3	4.7	7.8	6.5	13.7	19.5	7.0	4.4	6.3	10.4	5.2	. .
	5.	−1.2	−0.6	2.4	1.6	3.0	−4.0	2.1	3.3	5.9	14.4	5.3	−3.1	−2.7	6.5	−1.8	. .
Netherlands	1.	10.4	7.8	6.4	4.3	0.1	10.5	11.4	4.1	5.4	4.9	| 10.3	5.0	5.2	3.8	9.3	10.5
	2.	15.7	13.0	13.0	11.6	2.1	4.7	13.9	12.0	8.8	10.9	16.5	12.8	11.2	6.1	9.0	12.7
	3.	5.4	2.6	2.2	0.9	−2.2	2.0	4.6	2.5	2.6	1.0	1.6	0.9	−0.3	−2.6	−0.3	1.0
	4.	9.8	10.1	10.6	10.6	4.4	2.6	8.9	9.3	6.1	9.8	14.7	11.8	11.5	8.9	9.4	11.6
	5.	4.8	4.8	6.2	7.0	2.0	−5.3	2.3	7.6	3.3	5.7	| 5.6	7.5	5.7	2.2	−0.2	2.0
Norway	1.	7.4	3.4	7.3	0.9	−2.4	4.2	11.3	2.4	5.2	6.6	7.3	6.5	5.4	3.4	3.6	5.6
	2.	8.4	9.0	8.4	5.3	2.7	7.7	7.5	10.3	10.6	7.3	9.4	9.8	11.5	9.6	6.7	6.1
	3.	2.6	3.5	−0.6	0.6	−3.4	1.6	1.9	2.4	1.2	2.7	1.1	2.0	1.4	2.2	0.8	0.5
	4.	5.7	5.3	9.1	4.6	6.3	6.1	5.5	7.7	9.3	4.5	8.1	7.7	10.0	7.3	5.8	5.6
	5.	1.0	5.4	1.1	4.3	5.3	3.4	−3.4	7.8	5.1	0.6	2.0	3.1	5.8	6.0	3.0	0.5
Sweden	1.	7.1	2.7	3.1	3.3	1.2	5.9	9.1	7.9	8.9	7.7	8.7	7.5	4.8	0.4	4.9	9.0
	2.	7.6	10.2	7.6	5.7	5.1	2.3	14.5	11.9	12.1	10.0	9.8	10.2	8.8	5.4	4.9	7.3
	3.	0.9	3.2	0.9	0.1	−0.7	1.3	5.2	3.2	0.6	—	1.4	0.6	−1.3	−4.0	−1.8	0.4
	4.	6.6	6.8	6.7	5.6	5.8	1.0	8.8	8.4	11.4	10.0	8.3	9.6	10.2	9.7	6.7	6.9
	5.	0.5	7.3	4.4	2.3	3.9	−3.4	5.0	3.7	2.9	2.2	1.0	2.5	3.8	5.0	—	−1.6
United Kingdom	1.	6.7	6.4	−0.5	2.2	−1.3	6.0	8.2	0.2	0.4	4.1	8.9	3.3	1.5	−0.2	6.3	3.5
	2.	7.9	10.4	8.4	6.2	3.7	4.8	8.9	7.1	3.1	3.2	9.3	9.5	6.6	1.9	7.9	8.5
	3.	2.8	2.7	0.7	—	−1.5	−0.3	4.2	1.4	−0.9	−1.6	1.5	1.4	0.3	−3.1	−1.0	0.4
	4.	5.0	7.5	7.7	6.1	5.3	5.1	4.6	5.6	4.0	4.8	7.7	8.1	6.3	5.1	8.9	8.1
	5.	1.1	3.8	8.9	3.9	5.0	−1.2	0.7	6.9	2.6	−0.8	0.4	6.0	5.0	2.0	1.4	4.8

Sources: For output—United Nations, *Yearbook of National Accounts Statistics*, OECD, *National Accounts of OECD Countries*, and corresponding questionnaires.

For wage and salary bill—national accounts of the respective country, if available; otherwise national publications.

For employment—national publications.

NOTE. — The yearly changes in output before 1969 are national accounts data, based on the contribution of manufacturing to GDP in constant prices; except for Austria, Ireland, and the Netherlands, where the output data are based on the short-term index of manufacturing production. The preliminary output figures for 1969 for all countries are derived from such indices.

The wage and salary bill data include employers' social security contributions for the following countries: France, Ireland, Italy, the Netherlands, Norway, Sweden and the United Kingdom.

The employment data cover all wage- and salary-earners employed and in many cases differ from employment data in table 4, which commonly exclude wage- and salary-earners in handicraft and small enterprises.

For four countries, Finland, Italy, the Netherlands and Norway, national series for equivalent man-years have been used.

a Provisional data.

b Data refer to mining and manufacturing in establishments above a minimum size.

c Wage and salary bill data for 1967, 1968 and 1969 are not available for manufacturing. Figures utilized refer to private non-agricultural enterprises. Care should therefore be taken in interpreting the figures for unit labour costs.

d The 13.2 per cent increase refers to 6 months. It is assumed that the wage and salary development will be similar for the whole year.

recorded in the year as a whole. In *Ireland*, a damaging strike by maintenance workers led early in 1969 to a series of new agreements, providing for increases of the order of 15 per cent or more, and not all have yet been completed.

By contrast, *Finland* has experienced a long series of very rapid wage increases (nearly 10 per cent a year in manufacturing in the four years 1964-1968). But in 1968, after the devaluations, a " stabilization agreement " between the central employers and union organizations, with the participation of the government, was arranged. This provided for an increase in 1969 of about 3½ to 4 per cent in wage rates, and the government at the same time agreed to institute extensive price controls.[20] A similar agreement has now been negotiated for 1970 providing for an average 4.5 per cent increase (an additional 2½ per cent is expected through wage drift).

In accordance with historical experience, the wage developments of recent months point, in most countries, to pay increases in 1970 little if at all less than those of 1969.

Unit labour costs (see table 7)

Substantial increases in unit labour costs in manufacturing industry, resulting from these developments in employment, output and pay, occurred in the year 1969, taking the year as a whole, only in Ireland and the United Kingdom, and probably, in view of the strikes, in Italy for which full data are not available. In Ireland and the United Kingdom the increase in unit labour costs was of about 4-5 per cent. Elsewhere, including western Germany, there was no change (or changes of up to 2 per cent up or down which, in view of the uncertain and not always up-to-date statistics, are of doubtful significance). In Denmark, Finland, France, Norway, and Sweden, however, the development of unit labour costs was distinctly more favourable than in 1968; these were countries where the acceleration in manufacturing output growth was particularly strong in 1969. It seems probable, also, that in the course of 1969 the acceleration in wage increases brought about faster increases in unit labour costs than those recorded for the year as a whole.

Like the development of pay and productivity, the movement of unit labour costs in manufacturing has broadly followed a normal cyclical pattern, accelerating in the second year of output expansion (see table 7). There are, for example, many parallels between 1968-1969 and 1959-1960. It can also be observed that unit labour costs have in the past continued to increase, or even to accelerate their increase, as the rate of output expansion slows down. This is particularly clear in the figures for western Germany where the rate of output expansion steadily declined from 1960 to 1962 while the rate of pay increases remained fairly stable and the rate of increase in unit labour costs steadily increased from 4 per cent to nearly 7 per cent a year.

Estimates of unit labour costs for the whole economy—necessarily still more provisional for 1969 than those for manufacturing—are given in table 8. For obvious reasons the increases are throughout much greater than in manufacturing; indeed, decreases in any year are very exceptional. However, the increases in unit labour costs for the whole economy in 1969 were in excess of 5 per cent only in Denmark, France, Ireland, the Netherlands and the United Kingdom. This rather moderate development of unit labour costs in the whole economy is associated not so much with lower rates of pay increase outside manufacturing, but rather with the relatively small increases in employment (and consequently in recorded volume of output per worker). Small increases in employment in the service sectors in a period of upswing are quite a typical cyclical development.

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[20] The bigger increase in actual wage-earnings—5 per cent, more in manufacturing—was largely the result of strong wage drift, but was moderate compared with earlier experience.

TABLE 8

Unit labour costs for the whole economy and for manufacturing, industrial producer prices, consumer prices, and import and export prices

(Annual percentage changes from previous year)

Country	Period	Unit labour costs (Yearly averages)		Producer prices Industrial goods		Consumer prices		Unit value indices (Yearly averages)	
		Whole economy	Manufacturing	Yearly averages	December to December	Yearly averages	December to December	Imports c.i.f.	Exports f.o.b.
Austria	1966	5.5	6.9	1.9 [a]	1.4 [a]	2.2	1.9	1.0	−1.9
	1967	4.4	3.4	2.4 [a]	2.2 [a]	3.9	3.9	−2.0	—
	1968	2.4	−2.4	0.9 [a]	2.2 [a]	2.8	3.0	−4.1	−3.9
	1969	. .	−1.8	2.4 [a]	3.6 [a]	3.1	3.4	0.4	—
Belgium	1966	6.4	3.4	2.3	2.1	4.1	3.2	1.0 [b]	2.9 [b]
	1967	2.5	1.4	1.1	0.8	2.9	3.2	−2.0 [b]	−1.0 [b]
	1968	3.1	0.2	0.5	0.8	2.7	2.5	1.0 [b]	−1.0 [b]
	1969	3.3	1.2	3.0	6.1	3.8	4.4	3.0 [b]	3.2 [b]

TABLE 8 *(continued)*

Unit labour costs for the whole economy and for manufacturing, industrial producer prices, consumer prices, and import and export prices

(Annual percentage changes from previous year)

Country	*Period*	*Unit labour costs*		*Producer prices Industrial goods*		*Consumer prices*		*Unit value indices*	
		Whole economy (*Yearly averages*)	*Manufacturing* (*Yearly averages*)	*Yearly averages*	*December to December*	*Yearly averages*	*December to December*	*Imports c.i.f.* (*Yearly averages*)	*Exports f.o.b.* (*Yearly averages*)
Denmark	1966	8.2	5.9	3.5	2.4	6.7	6.2	1.0	3.8
	1967	6.1	2.1	1.7	3.1	6.9	10.3	—	−1.9
	1968	7.5	4.8	2.3	0.8	8.6	4.3	5.8	1.9
	1969	5.5	−0.9	3.6	6.0	3.5	4.9	0.6	4.7
Finland	1966	7.4	3.8	3.2	2.0	3.5	4.9	—	−0.9
	1967	6.8	5.5	1.9	13.5	6.0	6.7	5.8	2.7
	1968	8.4	5.6	12.0	0.4	9.0	5.7	20.2	17.7
	1969	2.2	1.5	4.1	9.3	2.0	0.9	7.9	4.6
France	1966	2.4	2.2	2.9	2.3	2.7	2.8	1.0	2.9
	1967	2.5	2.1 [c]	−0.6	—	2.7	3.4	−1.0	−0.9
	1968	7.1	5.9 [c]	−1.9	3.0	4.6	5.3	−1.9	−0.9
	1969	6.0	2.5 [c]	9.9	9.6	6.0	5.9	3.3	5.4
Western Germany	1966	5.3	4.4	1.7	0.8	3.5	2.6	1.0	1.9
	1967	−0.1	−0.1	−0.9	−0.8	1.5	0.4	−1.0	−1.0
	1968	−0.2	−1.6	−5.3 [d]	−5.0 [d]	1.8	2.7	−2.0	−1.0
	1969	3.8	2.2	2.2	4.7	2.7	2.9	3.0	1.3
Ireland	1966	6.2	4.8	4.4	5.2	2.9	3.9 [g]	—	1.9
	1967	1.9	1.1	3.9	3.5	3.2	2.6 [g]	—	—
	1968	5.2 [e]	−0.9	4.6	7.0	4.7	5.4 [g]	7.8	7.3
	1969	9.1 [e]	4.8	7.3 [a,f]	6.4 [a,g]	7.4	7.6 [g]	5.4	4.5
Italy	1966	1.3	−2.1	1.4	0.6	2.0	1.8	1.0	−2.0
	1967	2.8	6.0	—	0.4	2.0	1.8	1.0	—
	1968	1.4	−1.8	—	−0.3	1.3	1.0	—	−2.0
	1969	..	..	3.0 [f]	6.0 [g]	2.5 [h]	4.0 [i]	0.9	3.6
Netherlands	1966	9.6	5.7	5.3	5.1	5.8	4.1	1.0	—
	1967	2.9	2.2	1.1	1.2	3.4	4.1	−1.0	—
	1968	2.7	−0.2	1.7	1.2	3.7	4.2	−3.0	−1.9
	1969	6.7	2.0	−2.5 [f,k]	−0.6 [g,k]	7.5	6.5	2.0	2.0
Norway	1966	5.7	5.8	3.8	2.8	3.3	4.2	1.0 [l]	0.9 [l]
	1967	5.8	6.0	0.6	2.7	4.4	4.3	−1.0 [l]	−0.9 [l]
	1968	3.8	3.0	1.6	−0.9	3.5	3.7	−2.0 [l]	−2.8 [l]
	1969	4.0	0.5	4.8	10.5	3.3	4.0	1.7 [l]	1.0 [l]
Sweden	1966	7.4	3.8	3.8	3.5	6.4	5.6	1.9	0.9
	1967	6.0	5.0	2.4	1.7	4.3	2.9	—	0.9
	1968	4.3	—	1.5	1.7	1.9	2.4	—	—
	1969	2.4	−1.6	3.0	5.5	2.7	3.7	0.9	2.1
Switzerland	1966	..	..	1.9 [a]	0.9 [a]	4.8	4.6	2.9	3.8
	1967	..	..	0.3 [a]	0.7 [a]	3.9	3.5	—	3.6
	1968	..	..	— [a]	0.3 [a]	2.5	2.2	0.9	3.5
	1969	..	..	3.0 [a]	5.0 [a]	2.5	2.3	1.9	0.8
United Kingdom	1966	5.2	5.0	2.6	2.1	3.9	3.7	1.0	2.9
	1967	2.2	2.0	1.2	1.8	2.5	2.5	—	1.9
	1968	3.1	1.4	4.0	4.9	4.7	5.9	12.4	8.2
	1969	5.2	4.8	3.9	3.7	5.4	4.7	4.0	3.7

Sources: For unit labour costs: as for table 7. For producer prices and consumer prices: OECD, *Main Economic Indicators*; ECE, *Statistical Indicators of Short-term Economic Changes in ECE Countries;* and national statistics. For unit value indices: United Nations, *Monthly Bulletin of Statistics*; and OECD, *Main Economic Indicators*.

NOTE. — Unit labour costs have been derived in the following way:

Whole economy: Compensation of employees divided by the GDP (GNP for 1969). Employers' social security contributions are included for all countries.

Manufacturing: Wage and salary bill of all employees divided by the contribution of manufacturing to GDP. Details were quoted in the NOTE to table 7.

Unit value indices for 1969 are based on January-September 1969 over January-September 1968.

[a] General wholesale prices.

[b] Belgium-Luxembourg.

[c] The basic wage and salary bill data for 1967, 1968 and 1969 are not available for manufacturing. Figures utilized refer to private non-agricultural enterprises (see footnote *c* to table 7).

[d] From 1968 onwards, data exclude indirect taxes. This adjustment resulted in a 10 per cent fall in the index.

[e] Compensation of non-agricultural employees used as basic data for 1968 and 1969.

[f] January-November over January-November.

[g] November over November.

[h] January-October over January-October.

[i] October over October.

[k] From 1969 onwards, data exclude indirect taxes. This adjustment resulted in a 6 per cent fall in the index.

[l] Excluding ships

(iv) Prices (see table 8 for the main price series)

Consumer prices rose more in 1969 than the year before in nearly all the industrial countries (the exceptions being Denmark and Finland, where the increases, after devaluation, had been particularly marked in 1968, and Norway). The biggest increases—of more than 5 per cent—occurred in France, Ireland, the Netherlands and the United Kingdom. Elsewhere, increases in consumer prices ranged between 2 and 5 per cent, the smallest increase being in Finland and Switzerland.

The four countries with the biggest price increases in 1969 were also the four with the biggest increases in unit labour costs (for the economy as a whole) in that year, and in these four countries the rise in unit labour costs was approximately the same as that in consumer prices (though probably more in Ireland). However unit labour costs are passed on to consumer prices only after a certain delay. If 1968 and 1969 are taken together, it appears (bearing in mind the uncertainties surrounding the provisional estimates of unit labour costs for 1969) that consumer prices rose rather more than can be explained by labour costs in Austria, Denmark, the Netherlands and the United Kingdom. On the other hand, the rise in unit labour costs appears to have been greater than that in consumer prices in France, Ireland, Norway and Sweden. No exact correspondence between changes in unit labour costs in the whole economy (wages and salaries per unit of constant price GDP) and changes in consumer prices are, of course, to be expected. Consumer prices are also influenced, for example, by import prices, indirect taxes and subsidies, corporate profits and incomes of self-employers (the last being particularly important for agriculture). Over-all unit labour costs are influenced by the methods of measuring output in services, particularly public services.

One fairly common factor in 1969 was the general rise in import prices, partly the effect of rising prices of primary products, partly the general upward trend in prices of manufactured goods in international trade. Since the rise in import prices over the two years was mostly limited to two or three per cent, it generally played only a small part in the rise in consumer prices. This is not of course true of Denmark, Finland, Ireland and the United Kingdom, where the rise of import prices following devaluation was an important factor raising consumer prices in 1968; it is also estimated to account for a rise of nearly 1 per cent in consumer prices in 1969 in the Netherlands.[21]

Poor harvests also played a part in the rise of food prices; they rose by as much as 7 per cent in 1969 in the Netherlands and the United Kingdom[22] and by 4-5 per cent in France, Ireland, Italy and Norway, but by only 3 per cent in western Germany (annual averages).

More significant in several countries were the increases in indirect taxes imposed either as part of a general programme of demand restraint, or in connexion with the introduction of value added tax.

Thus, among the countries with relatively fast price increases in 1969, increases in indirect taxes were important in Ireland, the Netherlands and the United Kingdom. In the Netherlands, it is estimated that indirect tax increases accounted for 1½ per cent of the 7½ per cent rise in consumer prices in 1969.[23] In the United Kingdom, the indirect tax increases probably accounted for about 1 per cent of the 5½ per cent rise in consumer prices in 1969. In France, also, the increase in value added tax rates for January 1969, of about 15 per cent, added to the price pressures induced by labour-cost increases. It may be noted that value added tax was also introduced in Sweden at the beginning of 1969 in place of the turnover tax.

A number of Governments have recently introduced policy measures in the interests of price stability. Thus in Denmark, where general post-devaluation price control powers expired in July 1969, temporary price stops were imposed in selected areas (construction, road and rail transport). In Finland, the tripartite stabilization agreement, including price control powers, has been extended for 1970. In France, the price-stop imposed immediately after the August 1969 devaluation has been replaced by a system under which most enterprises undertake not to increase prices without official approval[24] and the Government retains powers to prohibit price increases. In the Netherlands, a temporary price-stop was imposed from April to September 1969. In Norway, the change-over to value added tax of 20 per cent in January 1970 (11 per cent on investment goods), replacing the current sales tax (averaging about 14 per cent) is expected to add about 5.8 per cent to consumer prices (the tax burden is offset by reductions in income-tax and increased social security payments). To control the effect on prices of anticipatory buying, a price-stop was put into effect from September through December 1969, and price control powers are to be used to limit price increases after the introduction of the new tax.

By contrast, the proposed introduction of a value added tax in Belgium has been postponed (for the second time) from January 1970 to January 1971; expectation of the change-over prompted anticipatory purchasing which, together with the general expansion of demand, had produced some sharp price increases. Italy also has postponed the introduction of the value added tax from January 1970 to January 1972 and has extended the freeze on rents.

Forecasts for consumer prices

For a number of countries, forecasts have been made by national authorities or research institutes for the rise in consumer prices in 1970—varying from 4 to 6 per cent.

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[21] Central Planning Bureau, *Macroeconomische Verkenning* (September 1969).

[22] The increase in the United Kingdom affected about equally imported and home produced foods.

[23] Central Planning Bureau, *op. cit.*

[24] For distributive enterprises, the Government has powers to request justification of price increases.

The forecasts available (referring to changes between average 1969 and average 1970) are:

Austria	4.5 per cent
Belgium	4.3 per cent
Finland	2 per cent
France.	5 per cent
Western Germany .	3 per cent (see page 131 below)
Ireland	5½ per cent
Italy.	5-6 per cent
Netherlands	4 per cent
Norway	5.6 per cent (maximum believed justified as result of value added tax)
Sweden	3.7 per cent
United Kingdom	4.3 per cent

(The sources of these forecasts are those used for the national forecasts of real output and demand summarized in table 1.)

For three countries, analyses have been made of the factors responsible for price increases in 1969 and expected to operate in 1970:

Components of price increases

	Netherlands [a] *(consumer prices)*		*Sweden* [b] *(consumer prices)*		*Finland* [a] *(final prices* [c]*)*	
	1969	*1970*	*1969*	*1970*	*1969*	*1970*
Indirect tax changes .	1.5	-0.1	0.1	0.5	-0.6	-0.3
Public tariffs and fees	—	—	0.3	0.3	. .	. .
Trade policy measures	0.3	—	. .	. .	. .	. .
Rent increases . . .	0.5	0.5	0.9	0.3	0.1	0.1
Agricultural prices . .	0.3	. .	0.6	0.1	0.5	0.3
Import prices . . .	0.8	0.2	0.6	0.8	0.5	0.3
Labour costs and miscellaneous . . .	4.1	2.7	1.0	1.5	1.3 [d]	2.0 [d]
Total.	7.5	3.5 [e]	3.5	3.5		
Export prices					-0.5	-0.2
Total.					1.3	2.2

Sources: Netherlands: Macroeconomische Verkenning, September 1969; *Sweden: Preliminär Nationalbudget 1970* (January 1970); *Finland: Economic Survey 1969* (September 1969).

[a] Yearly averages.
[b] End-of-year figures.
[c] Market prices for all final expenditure including exports.
[d] Including social insurance fees, interest, and income of *entrepreneurs*.
[e] Revised forecast given in March 1970 is 4 per cent.

Industrial prices

Rather exceptionally, producer prices for industrial goods increased in most countries in 1969 more than unit labour costs in manufacturing (or rose when labour costs fell). The only exceptions are western Germany, the Netherlands and the United Kingdom.[25] Moreover, in many countries the increase *during* 1969 (December to December) was considerably greater than that between the average for 1968 and the average for 1969. In part, this increase in industrial producer prices in 1969 may be associated with rising import costs (and also increases in other costs such as fuel). In part, too, it represents prices catching up with the increases in unit labour costs in the recession of 1967. However, even if the three years 1966-1969 are taken together, the rise in prices appears fully to have covered increases in costs—although possibly not in France and Norway—and to leave a considerable margin over the rise in costs in western Germany.[26] Over the whole three-year period, therefore, it appears that profit margins per unit of output have at least been maintained, and in the past year or two of rapid expansion they have increased considerably.

Export prices (unit values)—mainly industrial goods—also generally increased more in the favourable market conditions of 1969 than the year before (except in the devaluing countries, other than Denmark, in terms of domestic currency). Moreover, the increases in export prices in most countries, contrary to previous experience, were broadly in line with the increases in industrial producer prices.[27]

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[25] The fall in 1969 shown in table 8 for the Netherlands is due to the exclusion of indirect taxes (at the time value added tax was introduced) from the index of producer prices. On a comparable basis with earlier figures, the index might have risen, but not more than unit labour costs. Similarly in western Germany indirect taxes were excluded from the producer price index at the beginning of 1968, which explains the fall shown in that year in table 8.

[26] For western Germany, the previous footnote should be remembered. For devaluing countries, it should be observed that import prices will have risen much more than elsewhere. It should also be kept in mind throughout these comparisons that there may be in some cases a significant lack of comparability between the labour cost and price series.

[27] Western Germany (where total export unit values rose 1 per cent according to table 8) appears to be an exception. But in fact export prices for *manufactured* goods increased by about 5 per cent in 1969, partly as a result of the imposition of value added tax.

3. THE EXPANSION OF DEMAND

(i) The upsurge of domestic demand

Growth of domestic demand, and especially of productive investment, dominated the growth of output in most countries in 1969 (see table 1). This development is in strong contrast to 1968 when investment was generally still weak and output growth was led to an exceptional extent by exports, especially, in several countries, by exports to North America and western Germany.

The generally increasing role of domestic investment and consumption is displayed by the following figures:

The growth rate of domestic demand [a] as percentage of the growth rate of GNP

	1968	*1969*
Austria	93	69
Belgium	118	100
Denmark	50	129
Finland	—[b]	109
France	112	112
Western Germany	104	114
Ireland	159	175
Italy	70	. .
Netherlands	106	80
Norway	—[b]	100
Sweden	103	110
Switzerland	77	106
United Kingdom	74	33

Source: As for table 1.

[a] Private and public consumption and investment, and change in stockbuilding at constant prices.

[b] Domestic demand fell.

Thus, in Finland and Norway—where more than all the output expansion of 1968 was accounted for by exports—the trend of domestic demand changed from decline to expansion in 1969.

In Austria, Belgium and the Netherlands, however, the increase in exports, especially to western Germany, played a major role in the growth of output, and in the United Kingdom, although export growth slowed down, it accounted for most of the limited output expansion because the growth of domestic demand was almost completely checked.

Fixed investment

In every country, except the Netherlands and the United Kingdom, the growth of fixed investment accelerated in 1969. The total rose by as much as 10-20 per cent in Belgium, Denmark, Finland, France, western Germany and Ireland, by 7-8 per cent in Austria and Switzerland, and by 4-5 per cent in Sweden. It declined only in Norway (but by less than the year before, and only because of a further fall in ship purchases; excluding ships, investment rose by 5 per cent); it was effectively unchanged in the Netherlands and the United Kingdom. From such data as are available, it appears that nearly everywhere the expansion of investment in 1969 was mostly in machinery and vehicles on which expenditure rose in some cases by very large proportions (over 20 per cent in western Germany and Finland and by 16 per cent in Belgium);[28] in few countries was there much increase in construction activity.[29] This was partly, of course, due to the particularly fast expansion of investment in manufacturing industry. In the Netherlands and the United Kingdom, it appears that output in construction failed to increase at all.

Increases in public investment were generally more modest. In *France*, general government investment, restrained by policy, increased only 4 per cent in 1969, and in publicly owned enterprises remained at the 1968 level, while private enterprises' investment rose by about 15 per cent. The stability of total investment in the *United Kingdom* in 1969 is also to be explained by restrictive policy. Public sector investment, mainly in nationalized industries, was probably reduced by 5 per cent or more, and investment in dwellings (public and private) by still more; but investment in manufacturing is estimated to have increased by over 10 per cent and in other private industries by about 5 per cent.[30] The rather modest increase of investment in *Norway* (excluding ships) was mainly in transport, trade and the public sector; industrial investment was slightly reduced (there had been a bigger fall in 1968).

The rather modest expansion of investment in 1968, followed by a rapid pick-up in 1969—where it has occurred—follows rather closely the timing and dimensions of investment trends in 1959 and 1960. Then, also, the big rise in investment came in the second year of output expansion when it surpassed—at least for machinery and vehicles—the growth of output.[31] It is still more relevant to point out that investment continued to grow fast in 1961, when the rate of output expansion had already fallen. Because of the lags between ordering and delivery, and reluctance to change plans, it is normal to find that investment responds only slowly to changes in total output and demand. Hence a serious fall in the rate of growth of investment appears unlikely in 1970; except in France and western Germany,[32] national forecasts do not incorporate any considerable slowing down, and several countries envisage an acceleration (Austria, Italy, the Netherlands, Norway, Sweden, the United Kingdom).

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[28] In Belgium, total industrial investment is reported to have risen, at current prices, by 30 per cent in 1969, excluding the chemicals industry where there was a considerable decline in both 1968 and 1969 following the completion of some large projects.

[29] The greater volatility of investment in machinery and vehicles than in construction is a normal cyclical feature. See, for example, the SURVEY for 1966, chapter I, pp. 34 ff.

[30] Provisional estimates, *National Institute Economic Review*, February 1970. The nationalized steel industry is here included with manufacturing industry.

[31] See the analysis of the growth of investment and output in manufacturing in the SURVEY for 1966, chapter I, pp. 33 ff.

Private consumption

In 1969, the volume of private consumption rose by 7 per cent or more in Denmark, France and western Germany, and by 5 to 6.5 per cent in Belgium, Finland and Norway. In the other countries, it rose from 3 to 5 per cent, with the major exception of the United Kingdom where it did not significantly increase.

In most countries, private consumption rose more rapidly in 1969 than in 1968, conspicuously so in Denmark and Finland (which had only very little increase the year before) and in western Germany. It slowed down, however, in Austria, Ireland, the Netherlands and the United Kingdom. The acceleration in the growth rate of private consumption is a consequence of the acceleration in employment and pay (and hence in primary income of households) which was quite a general feature of 1969. On the other hand, as will be seen below, tax policy was not generally restrictive—perhaps less so than was thought a year ago; so, with the major exceptions of Sweden and the United Kingdom, disposable household incomes rose at least as fast as primary incomes.

However, the fairly general acceleration of private consumption between 1968 and 1969 does not necessarily imply that its relative importance as a factor in output growth increased. The growth rate of private consumption in 1969, as a ratio of the growth of GNP, increased only in Denmark, Finland, western Germany, Norway and Switzerland.

In *Norway*, private consumption rose in 1969 1½ times as much as gross national product. The exceptionally fast increase in private consumption, especially for durables, may be attributed to anticipation of the increases in indirect taxes which came into effect in January 1970 (expected to increase consumer prices by nearly 6 per cent). Purchases of private transport equipment increased in volume by 29 per cent, and of furniture and other household durables by 15 per cent—well in excess of what would correspond to the 4.2 per cent increase in disposable income.

In *Denmark*, the exceptional upswing (7 per cent) in private consumption was partly the consequence of the increases in employment and earnings, and partly of the once-for-all increase in disposable income of households resulting from the change-over to a pay-as-you-earn tax system from 1970; this in effect made 1969 a tax-free year for increments in income. Denmark and Norway were the only countries where private consumption in 1969 rose more than gross national product.

In western Germany, Ireland and (probably) Italy, consumption approximately maintained its share of the GNP. But in Austria, Belgium, Finland, France, the Netherlands, Sweden and Switzerland, the consumption share of GNP was slightly reduced, and in the United Kingdom considerably so (the 5 per cent rise in disposable income of households in the United Kingdom was matched by the rise, partly tax induced, of consumer prices).

Stockbuilding

Information at present available on stockbuilding for 1969 is still too provisional to permit any firm conclusion.[33] In 1968, stockbuilding was important in relation to output growth only in Austria and western Germany. In 1969, as shown below, the increase in stockbuilding was sizeable in several countries, although not in western Germany. This increase in stockbuilding in 1969 was no doubt often associated with accelerations in import growth.

Changes in stockbuilding [a]

	1968	*1969*
Austria	35.3	10.1
Belgium	18.6	. .
Denmark	−4.5	. .
Finland	−43.9	8.8
France	−7.6	16.7
Western Germany	48.4	5.6
Ireland	33.3	36.1
Italy	−13.7	. .
Netherlands	6.1	37.2
Norway	−34.7	17.5
Sweden	10.7	23.4
Switzerland	2.6	−0.8
United Kingdom	−0.9	18.5

Source: As for table 1

a Annual change in "stock changes" expressed as a percentage of annual change in gross national product (at constant prices).

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[32] See the discussion of prospects on pp. 130 ff.

[33] Information on stockbuilding for 1968 available when the SURVEY for 1968 was written (see chapter I, p. 15, table 8) has been significantly revised in some cases in 1969.

(ii) The impact of public finance

An analysis of the role of fiscal policy in 9 countries in the 1968 SURVEY (pp. 19 ff.) suggested that fiscal policies would in several countries exercise a restrictive influence on the rest of the economy in 1969, particularly in comparison with the expansive tendencies of 1968.[34] The main exceptions were western Germany where a substantial shift towards an expansionary policy was expected at the beginning of the year and Sweden where it was thought that the expansionary policy would be pursued, although not to the same degree as in 1968.

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[34] Effects measured as the impact on GDP of changes in the finances of general government (central and local government, social insurance).

Provisional indications of the outcome for several countries suggest that events have taken a different course in 1969. Although it has not been possible to undertake so detailed an analysis, some indications of the general tendencies prevailing in 1969 can be given.[35] These tendencies are shown in the form of " over-all

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[35] For France and Italy, data for 1969 are available only for central government transactions.

Table 9

Changes in general government revenue and expenditure in 1969 and 1970

(Per cent of GNP previous year, at current prices)

Country	*1. Revenue*					
	Direct taxes [a]		*Indirect taxes* [b]		*Total revenue* [c]	
	1968-1969	*1969-1970*	*1968-1969*	*1969-1970*	*1968-1969*	*1969-1970*
Austria	2.5	2.8	1.5	1.6	4.0	4.4
Denmark	1.8	..	1.7	..	3.4	..
Finland	2.1	2.7	—	0.5	2.1	3.2
France [d]	0.7	0.7	2.8	0.8	3.8	1.6
Western Germany	3.7	3.4	2.2	0.6	5.9	4.0
Italy: [d] cash basis	..	..	..	..	2.1	2.4
Netherlands	1.8	1.2	1.6	1.5	3.4	2.7
Norway	2.4	—	1.7	2.7	4.2	3.3
Sweden	3.5	3.3	0.9	0.7	5.9	5.5
Switzerland:						
total	..	..	..	..	1.6	..
federal	..	..	..	..	—	1.0
United Kingdom	3.4	..	2.3	..	5.6	..

Country	*2. Expenditure and over-all balance*									
	Consumption		*Investment* [e]		*Transfers* [f]		*Total expenditure* [c]		*Over-all financial balance* [c]	
	1968-1969	*1969-1970*	*1968-1969*	*1969-1970*	*1968-1969*	*1969-1970*	*1968-1969*	*1969-1970*	*1968-1969*	*1969-1970*
Austria	1.8	1.2	0.5	0.5	1.6	1.5	4.3	3.3	−0.3	1.1
Denmark	2.5	..	0.9	..	0.4	..	3.7	..	−0.3	..
Finland	1.5	1.3	—	—	0.9	1.1	2.4	2.4	−0.3	0.8
France [d]	0.9	0.7	0.1	−0.2	1.0	0.7	2.0	1.2	1.8	0.4
Western Germany	1.7	1.5	0.4	0.4	1.0	0.9	3.4	2.8	2.5	1.2
Italy: [d]										
cash basis	0.8	..	0.1	..	..	..	..	..	..	..
administrative budget	..	..	..	..	..	..	..	3.8	..	−1.4
Netherlands	2.1	1.5	0.5	0.1	0.4	0.5	3.1	2.1	0.3	0.6
Norway	1.7	1.0	0.4	0.5	2.2	3.6	4.3	5.2	−0.1	−1.9
Sweden	2.6	2.0	0.3	0.6	1.5	1.5	5.2	4.8	0.7	0.7
Switzerland:										
total	0.9	1.1	0.5	..	0.4	..	1.9	..	−0.3	..
federal	0.3	0.2	0.1	—	0.5	0.2	0.9	0.5	−0.9	0.5
United Kingdom	1.4	0.5	0.4	0.4	0.6	0.5	3.0	1.3	2.6	..

Sources and notes for separate countries:

Austria: Amtsbehelf zum Bundesfinanzgesetz 1970.

Denmark: OECD, *Economic Survey*, June 1969, and national sources.

Finland: Riksstatsförslaget 1970; Ekonomisk översikt.

France: Statistiques et Etudes financières, September 1969, *Le Monde* 11/12 1969 and secretariat estimates. " Transfers " not comparable with other countries since they include a large amount of lending and transfers to enterprises (including farmers). Central government only.

Western Germany: Jahreswirtschaftsbericht 1970 der Bundesregierung.

Italy: OECD, *Economic Survey*, August 1969, and national sources. Central government only.

Netherlands: Macroeconomische Verkenning 1970.

Norway: Økonomisk utsyn 1969, Nasjonalbudsjettet 1970

Sweden: Preliminär nationalbudget 1970.

Switzerland: OECD, *Economic Survey*, January 1970. Federal figures for 1969 = budget 1969. Subsidies included in " transfers ". Federal investments = " capital transfers ".

United Kingdom: Financial Statement and Budget Report 1969-1970 (April 1969) and *Public Expenditure 1968-1969 to 1973-1974* (Cmnd. 4234 of December 1969).

[a] Includes in principle trading income and social insurance contributions.

[b] Net of subsidies.

[c] Includes in some cases a group of miscellaneous items.

[d] Central government only.

[e] In principle net investments; investments by public enterprise not included.

[f] In principle: transfers to households; for France, all transfers including lending to industry, etc.

financial balances ".[36] As compared with 1968, the positive balances increased (or deficits fell) in 1969 in France, western Germany, Sweden and the United Kingdom; in the other countries shown, the changes were marginal (see table 9 where changes in certain revenue and expenditure items are given as percentages of GNP).

To assess the effects of the changes on the economy, however, account must be taken of other factors, in particular of the multiplier effects. These differ considerably between countries and between different items in the balance. Typically, the multiplier for changes in real public expenditure on goods and services is considerably bigger than the multiplier effects for other items.[37] The magnitudes are, however, highly dependent on the size of the various " leakages " such as the marginal propensities to save and to import, the marginal tax rates, etc. After making reasonable allowance for these effects, the figures in table 9 suggest that in most countries the changes in public finance between 1968 and 1969 have had a considerable stimulating effect on the economy. In many cases this effect is within the range of ½ to 1 per cent of GNP 1968. This is mainly the result of a comparatively lively growth in public consumption expenditure and to some extent in transfers. It should be seen against the background of generally restrictive budget objectives at the beginning of the year and against the fact that the unexpectedly large increases in incomes have been counteracted by the automatic stabilizing effects of the tax system in many countries.

The main exceptions from the general tendency are France, western Germany and the United Kingdom. In France the effect of the restrictive measures adopted at the end of 1968, mostly in the form of increases in indirect taxes, had their full effect in 1969; the blocking of public investment expenditures in July 1969 contributed. In western Germany, fiscal policy was already re-oriented in a restrictive direction during the first quarter of 1969, when it became clear that growth would exceed expectations. The revenue from the export tax, and also some expenditures, were blocked. But the restrictive effect was accentuated by the automatic rise in tax revenues. In the United Kingdom, fiscal policy was set on a retrictive course by the budget of April 1969. Both revenue and expenditure development contributed; the increase in revenue from indirect taxes (relative to GNP 1968) was bigger than in any other country except France.

It may be noted that the increase in total revenue of general government was equivalent to more than the GNP-increase (at current prices) in the United Kingdom and was between 40 and 70 per cent as much in Austria, western Germany, Norway and Sweden. In other countries, the percentage was lower, but particularly small in Switzerland, where the automatic tax response to income increases is not enough to counterbalance even rather moderate expenditure increases on goods and services.

Policy measures undertaken by central governments in the course of 1969 were mainly restrictive. (For a summary, see the calendar of policy measures which follows.)

The outlook for 1970

The published budgets or forecasts for 1970 show a general tendency to strengthen over-all financial balances.[38] There are two exceptions only: Italy and Norway. In Italy the deficit on the over-all balance is expected to increase by an amount corresponding to 1.4 per cent of GNP and in Norway by almost 2 per cent of GNP.

It can be seen from the table that tax revenues are expected to increase approximately at the same rate as in 1969. In Norway, however, there will be a considerable shift from direct to indirect taxation associated with the change to value added tax, and the over-all expansionary tendency in this country must be seen in this light: the heavy increase in transfer payments and some reductions in income-tax are intended to balance an expected rise in the consumer price level by about 6 per cent. In Denmark also the tax system has been reformed: the effect of a change to a pay-as-you-earn system in 1970 will produce heavy increases in the revenue from direct taxes, in contrast to 1969. In western Germany, the amount of indirect taxes is expected to increase markedly more slowly than in 1969, because of the removal of the export tax. In France, the change indicated in the table is still slightly restrictive by contrast with the strongly restrictive influence of the changes in 1969.

The desired restrictive effects are planned to be carried out by reductions in the rate of increase in expenditure in several countries—apparently founded on a forecast of rather low price increases in public expenditure on goods and services. Only in France and western Germany are important cuts in the growth of the volume of expenditure expected.

A rough allowance for multiplier effects leads to the conclusion that the total impact of the planned changes in public finance in 1970—in those countries for which figures are given in table 9—would be clearly restrictive in Austria, France and western Germany. It would be mildly expansionary in Sweden, clearly expansionary in Italy and more or less neutral in the rest. The actual outcome will however be highly dependent on the " automatic " changes, and this year particularly on changes connected with wage and price developments.

It emerges from the analysis above that, although the general direction of the 1970 budgets is restrictive, their impact on the growth rate of the economies is very small, especially in relation to the slowing down of output and demand which is incorporated in the national forecasts for most of these countries.

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[36] In principle, total current revenue less total current expenditure, for general government including social insurance. In principle all transactions on the credit-market are excluded, such as government lending, and all foreign transactions. Investments are net investment, excluding nationalized industries and government enterprises. The exceptions are, however, many. See notes to table 9 for the main exceptions and sources.

[37] Broadly speaking, the multiplier for real expenditure on goods and services could be said to approach 2 and that for transfers and taxes about 1.

[38] For France, Italy and Switzerland estimates for central government only are available. The United Kingdom budget was presented after this SURVEY went to press and is summarized on page 135.

TABLE 10

Summary of apparent intent of major policy measures taken in 1969 and first two months 1970

Country	Restrictive			Budget[b] 1970	Expansionary		
	Fiscal[a]	Monetary and credit	Prices and wages		Fiscal[a]	Monetary and credit	Prices and wages
Austria	1 4	3 4 5		4		2	
Belgium	2 4	1 2 3 4		4[c]	5[e]		
Denmark	2 5	1 2 3	3	4			
Finland	5	3	3	3[c]	2	1	
France	1 3	2 3 4	3	4		5	
Western Germany	2 3 5	2 3		5	1		
Ireland		5		2[c]			
Italy		5	4	3	5[e]		
Netherlands	1 2 3	1 2 3 5	2	3			3
Norway	5[d]	3 4 5	4	4			5
Sweden	5	1 3		5			
Switzerland	5	3 5		4			
United Kingdom	1 2	1 2 3	4	2			

NOTE. — 1 = first quarter 1969; 2 = second quarter 1969; 3 = third quarter 1969; 4 = fourth quarter 1969; 5 = first quarter 1970.

[a] Specific measures coming into effect in quarter indicated.

[b] Over-all intended effect at time of announcement.

[c] Neutral.

[d] Introduction of value added tax.

[e] Postponement of introduction of value added tax.

A calendar of economic policy measures in industrial west European countries: 1969—early 1970

AUSTRIA

Fiscal policy

January 1969: 10 per cent surtax levied on income, wage and company taxes. Increase in special property tax.

October 1969: 1970 Budget approved (restrictive).

November 1969: To counter inflationary tendencies after DM revaluation: import duties reduced; reduction of import equalization tax; increased import quotas.

Monetary and credit policy

April 1969: Interest rates on time deposits and government loans raised.

May 1969: Minimum cash reserve requirements lowered.

September 1969: Discount rate raised from 3¾ to 4¾ per cent.

October 1969: Following DM revaluation, minimum reserve ratios increased.

January 1970: Discount rate raised from 4¾ to 5 per cent.

BELGIUM

Fiscal policy

May 1969: BF 7.5 billion *tranche conjoncturelle* of public expenditure renounced, and current expenditure reduced.

September 1969: Postponement of introduction of value-added Tax to January 1971.

October 1969: 1970 Budget presented (not intended to give any additional stimulus to economic activity).

November 1969: Tax rebates for certain exports reduced.

January 1970: Tax rebates for certain other exports reduced.

Monetary and credit policy

January 1969: Abolishment of preferential discount rate for export bills for EEC countries.

March-April 1969: Discount rate increased from 4.5 to 5 per cent, and further from 5 to 5.5 per cent.

April 1969: National Bank imposed credit restrictions.

May 1969: Discount rate raised to 6 per cent.

June 1969: Hire-purchase terms and maximum repayment periods for personal bank loans shortened.

July 1969: Discount rate raised from 6 to 7 per cent.

August 1969: Credit policy tightened, including lowering of rediscount ceilings.

September 1969: Credit policy tightened further. Discount rate raised from 7 to 7½ per cent.

November 1969: Hire-purchase credit tightened further.

Exchange control, etc.

November 1969: Certain imports liberalized (particularly products from eastern Europe).

DENMARK

Fiscal policy

May 1969: Increase in tax on gasoline; higher taxes on motor-vehicles; increased rates and fares affecting communications and transportation; cuts in government expenditures.

November 1969: 1970 Budget provides for increase in income-tax in conjunction with change-over to pay-as-you-earn system (January 1970); designed to slow down consumption expenditure

January 1970; Change-over in taxation system goes into effect; 30 per cent withholding tax imposed on individual income.

Monetary and credit policy

March 1969: Discount rate raised from 6 to 7 per cent.

May 1969: 20 per cent of growth in bank liabilities to be deposited with Central Bank. Discount rate raised from 8 to 9 per cent. Controls imposed on financing of repayments of foreign debts.

September 1969: Banks to deposit 30 per cent of liabilities with Central Bank.

Price and incomes policy

July 1969: Upon expiration of general price controls, selective temporary price freeze imposed, i.e. on building and construction, road and rail transport and telephone services.

Exchange control, etc.

October 1969: Liberalization of imports (particularly products from eastern Europe).

FINLAND

Fiscal policy

April 1969: Elimination of remaining levy of exports (introduced on 21 October 1967 following devaluation of the mark; since then gradually reduced).

September 1969: 1970 Budget designed to be neutral with respect to over-all demand. Post and telegraph charges raised.

November 1969: To reduce cyclical fluctuations, establishment of a reserve through which budgetary funds can be paid into blocked account during upswing. In-payments to begin first quarter 1970.

Monetary and credit policy

March 1969: Instalment credit controls eased on motor-vehicles and removed on other consumers' goods.

September 1969: Credit institutions to limit increase in advances.

Price and incomes policy

September 1969: General wage stabilization agreement; provided for termination of index linkage arrangements and prolonged limitations on wage increases, prices and tax rates to end 1970. The new agreement provides increases in wages and other benefits by 4½ per cent in 1970 (in line with increase in productivity). To consolidate benefits, establishment of permanent procedures for restraint in incomes negotiations is envisaged.

FRANCE

Fiscal policy

January 1969: New rates of value-added tax (average increase 15-16 per cent) came into effect. Ceiling for wages liable for social security contributions raised and pensions increased by 4 per cent. Postal tariffs increased.

July 1969: Government froze half of all public investment for second half of 1969.

September 1969: Measures introduced to support devaluation included: further freezing of public investment, special tax for banks of 0.75 of deposits, proportion of corporate tax liability to be paid in fiscal year increased. 10 per cent tax rebate withdrawn on new orders; less tax relief on account of depreciation; special provisions offered on some savings deposits.

October 1969: 1970 Budget foresees a small surplus on the overall balance. 5.6 per cent cut in capital expenditure; revenue to increase by 11 per cent; ceilings on income-tax brackets raised and alterations proposed in value-added tax.

December 1969: value-added tax on processed foods reduced from 17.6 to 7.5 per cent.

Monetary and credit policy

May 1969: Banks instructed to limit the increase in credit to end-1969. Hire purchase regulations tightened.

June 1969: Discount rate raised from 6 to 7 per cent and minimum reserve ratios lowered.

July 1969: Quantitative restrictions on bank credit extended to end-1969.

August 1969: Hire purchase regulations tightened further.

September 1969: Interest rates on loans to local authorities increased from 7 to 8 per cent.

October 1969: Discount rate raised from 7 to 8 per cent.

November 1969: Quantitative limits on bank credit expansion extended until June 1970.

January 1970: Hire purchase restrictions eased.

Price and incomes policy

April 1969: Steps taken to increase income of lower income group; partial unemployment indemnity increased; old-age pensions increased by 4.5 per cent; minimum wages raised by 2.33 per cent. Wages in nationalized sectors increased by 2 per cent.

August 1969: Industrial prices and commercial profit margins frozen until 15 september.

September 1969: Price freeze replaced by system of surveillance.

October 1969: Minimum hourly wage increased to 3.8 per cent (from 2.5 per cent); salaries of public employees increased by 3 per cent; old-age pensions increased.

November 1969: Minimum guaranteed wage replaced by minimum growth wage, to take into account general economic developments.

Exchange rates, exchange control, etc.

January 1969: Remaining quota restrictions on imports abolished as scheduled. Banks required to reduce net position in foreign currencies by 31 January.

August 1969: French franc devalued by 11.11 per cent; regulations on transactions in foreign activities eased.

WESTERN GERMANY

Fiscal policy

February 1969: Economic policy of 1969 designed to support domestic demand. Net additional tax revenue due to border tax adjustment for use in structural adjustment; growth of total public expenditure increased from 7 to 8.5 per cent.

March 1969: Economic policy for 1969 altered. Revenue from border taxes not to be spent; deferment of other planned public expenditure; speeding up of enterprises' tax payments. Excess revenue used for reduction of scheduled borrowing.

July 1969: Indefinite prolongation of 4 per cent border tax adjustment (previously to expire March 1970). Blocking of public expenditure extended to end-1969.

October 1969: 4 per cent border tax abolished.

January 1970: Stabilization programme announced; public expenditure to be limited to an 8.8 per cent increase; proposed tax amendment relief postponed until July 1970 and January 1971. 1970 Budget—follows lines of stabilization programme.

Monetary and credit policy

April 1969: Discount rate increased from 3 to 4 per cent.

June 1969: Discount rate raised from 4 to 5 per cent. Increase in minimum reserve ratios.

July 1969: Minimum reserve ratios for all liabilities increased.

September 1969: Discount rate raised from 5 to 6 per cent.

November 1969: Minimum reserve ratios lowered, in particular for foreign liabilities.

December 1969: Regulations prohibiting interest payments on non-residents' deposits abolished.

Exchange rates, exchange control, etc.

January 1969: Banks acceptance of foreign funds no longer requires authorization.

May 1969: *Deutschebundesbank* empowered to raise minimum reserve ratio on deposits of non-residents (not to exceed 100 per cent).

September 1969: 25-29 Bank holdings of DM exchanged at " free-floating " rate.

October 1969: Levy put on all agricultural imports. Revaluation of the Deutsche Mark—by 9.3 per cent.

IRELAND

Fiscal policy

April 1969: 1969/70 Budget provided increases in indirect tax, concession in income-tax.

Monetary and credit policy

January 1970: Hire purchase regulations tightened.

ITALY

Fiscal policy

February 1969: New pension programme announced providing significant increases.

July 1969: Taxes on cigarettes raised. Fiscal budget proposals for 1970 approved by Government. Budget deficit to be increased.

December 1969: Italy authorized by EEC to postpone introduction of value-added tax from 1 January 1970 to 1 January 1972; tax reimbursement rates for exported engineering goods to be cut before end-1971.

Monetary and credit policy

March 1969: Banks to reduce net foreign assets in order to balance net foreign position by 30 June 1969.

August 1969: Discount rate raised from 3.5 to 4 per cent.

November 1969: Maximum interest rate payable on five-year time deposits raised to 6 per cent.

January 1970: Interest rate on mortgage bonds raised from 5 to 6 per cent. (State to cover difference in certain cases.)

February 1970: The payment in foreign currencies of Italian bank notes coming from abroad centralized by the Bank of Italy. Commercial credits for exports reduced from one year to four months. Pre-payments for imports reduced from one year to 30 days.

Price and incomes policy

November 1969: Rent freeze prolonged from end-1969 to end-1970.

NETHERLANDS

Fiscal policy

January 1969: Suspension of tax incentives for private industry extended to January 1970.

April 1969: Tax relief on company investment (in connexion with change-over to value-added tax in January 1969) abolished.

July 1969: Excise taxes on petrol, petroleum, beer, wine and spirits increased by 10 per cent.

September 1969: 1970 Budget increases in indirect taxes, i.e. standard rate of TVA to be increased as from July 1970. Certain compensatory relief in direct taxes.

Monetary and credit policy

January 1969: Special interim investment allowances reduced. Hire-purchase conditions tightened.

April 1969: Discount rate raised from 5 to 5½ per cent.

July 1969: Banks requested to observe certain limits in their net foreign assets.

August 1969: Discount rate raised from 5½ to 6 per cent.

September 1969: Ceiling on short-term credit to the private sector imposed.

January 1970: Quantitative restrictions on expansion of short-term credit extended to the first four months of 1970.

Price and incomes policy

March 1969: Minimum wage increased for a second time in 1969 as a result of rise in prices.

April 1969: General price freeze on goods and services imposed.

July 1969: Minimum wage increased for third time in 1969.

September 1969: General price freeze on goods and services introduced last April, relaxed. Increases in costs resulting from increases in import prices and in taxes may be passed on to customers.

NORWAY

Fiscal policy

October 1969: 1970 Budget provided for significant increase in public expenditure and an increase in the over-all budget deficit by 1,200 million kroner.

January 1970: Introduction of 20 per cent value-added tax (to replace 13.64 per cent turnover tax). 11 per cent tax on investment goods; income-tax burden reduced with easing of progression and more generous deduction allowances; pensions and benefits increased.

Monetary and credit policy

August 1969: Commercial banks requested to refrain from approving credit applications designed to retain exchange earnings or accelerate foreign settlements.

September 1969: Discount rate raised from 3½ to 4½ per cent.

November 1969: Liquidity ratio for commercial banks to be raised.

January 1970: Banks required temporarily to maintain minimum primary liquid reserves.

Price and incomes policy

September and October 1969: Price freeze applied until end-December to all domestic goods and profits in anticipation of change-over to value-added tax January 1970. After January, price increase limited to 5.6 per cent.

January 1970: Price freeze terminated.

SWEDEN

Fiscal policy

January 1969: Turnover tax replaced by a value-added tax at same rate of 11.11 per cent. 1969/70 (July/June Budget proposals presented. Budget deficit to decrease by 1,000 million Swedish kroner.

January 1970: The 1970/71 (July/June) Budget proposals include increase in value-added tax from 10 to 14 per cent (February 1970) for certain durable consumers' goods and (from January 1971) for all other goods. Taxes on tobacco and beer raised.

Monetary and credit policy

February 1969: Discount rate increased from 5 to 6 per cent.

March 1969: Activation of cash-ratio law authorizing Central Bank to charge penalty interest on the amounts by which the Bank falls short of required liquidity ratio.

July 1969: Discount rate raised from 6 to 7 per cent.

August 1969: Under cash-ratio law, banks required to place equivalent of 1 per cent total deposit liabilities on non-interest-bearing account with Central Bank and to pay penalty of 3 per cent above discount rate on any shortfall. Quantitative borrowing ceilings for individual banks introduced for first time.

Exchange control, etc.

January 1969: Restrictions tightened on foreign capital transactions.

September 1969: Further restrictions on capital movements implemented in order to stabilize foreign exchange reserves.

SWITZERLAND

Fiscal policy

January 1969: Social security pensions increased by one-third. Taxes on spirits raised on average by 50 per cent.

October 1969: 1970 Budget designed to counteract anticipated strong demand and cost price pressures. Growth of expenditures to be kept down to 4.7 per cent.

January 1970: A stabilization programme to include an acceleration of tariff reductions, postponement of certain public investments; a 5 per cent export levy is under consideration.

Monetary and credit policy

September 1969: National bank and majority of banks reach agreement on minimum reserve deposits and permissible credit expansion. Major banks increase interest on cash certificates by ¼ per cent. Discount rate raised from 3 to 3¾ per cent.

January 1970: Rate of credit expansion, authorized under September 1969 agreement, to be reduced.

Price and incomes policy

March 1969: Enterprises to reduce number of foreign workers with renewable work permits by 2 per cent.

UNITED KINGDOM

Fiscal policy

February 1969: Estimates for public expenditure, in volume, show government intent to restrain growth of expenditure to 1 per cent in 1969/70, and to 2 per cent in 1970/71.

April 1969: 1969/70 Budget. Corporation tax raised from 42.5 to 45 per cent; increased taxes on wines and hydro-carbon oils; purchase tax rates increased by 1¼ to 5 per cent and extended to additional goods; selective employment tax increased; certain income-tax allowances raised and relief given to lower incomes; interest charges on wide range of personal borrowing no longer qualify for tax relief.

Monetary and credit policy

February 1969: Bank rate raised from 7 to 8 per cent.

June 1969: Chancellor announced targets for 1969/70 of £300 million surplus on the balance of payments; maximum increase of 1 per cent in real public expenditure over 1968/69 planned levels; and £400 million limit imposed on domestic credit expansion.

September 1969: Clearing banks increase lending rates by ½ per cent as from 1 October, to reduce current pressure on bank lending.

Price and incomes policy

December 1969: White Paper on prices and incomes suggests range of 2½ to 4½ per cent as appropriate for most annual wage increases; it proposes a return to the early warning system on expiration of the present legislation.

Exchange control, etc.

July 1969: Bank of England to co-ordinate and control the flow of foreign currency and borrowing by nationalized industries and local authorities.

October 1969: Import deposit scheme extended to 5 December 1970. Rate of deposit to be reduced from 50 to 40 per cent.

January 1970: Restrictions on tourist expenditure abroad eased.

4. INTERNATIONAL TRADE AND PAYMENTS

(i) General description of trade flows

In 1969 the growth of world trade again surpassed expectations. In early 1968 most governments had viewed the prospective growth of world trade in that year with considerable caution but the outcome was not only an acceleration of trade growth in volume terms but also an increase in the foreign trade elasticities.[39] Similarly, early in 1969 most forecasters expected that the growth of international trade in that year would exert a less powerful impetus to general economic expansion than did the " altogether exceptional " growth of world trade in 1968.[40] In fact, while world output growth in 1969 was somewhat less than in the preceding year, the volume of world trade increased at very nearly the same high rate as in 1968.[41] In value, world trade growth in 1969 exceeded that recorded in 1968; the increase was 13-14 per cent (judged from data covering three quarters), including an increase in the average unit values of internationally traded goods of some 3 per cent, compared with a decline in the two preceding years. (See table 11.) It is likely that the unit value increase will be found to have been somewhat bigger when data for the full year 1969 become available.[42]

The " price " developments between 1967 and 1968 were to some extent influenced by the devaluations towards the end of 1967, the effect of which was to hold down dollar prices which might otherwise have risen in sympathy with the acceleration of economic activity in developed countries. The price increases in 1969 contain, on the other hand, a certain element of catching-up in export prices in the countries which had devalued.

In 1969, primary commodities, as a group, and manufactures benefited from rising export prices. Not all primary commodities were affected, however: there were no general price increases for fuels, cereals and textile fibres. For some fats and oils and for cocoa and sugar, export prices rose significantly in 1969, but the largest price changes were in base metals, steel as well as non-ferrous. In other groups, too, the high level of

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[39] See the SURVEY for 1968, chapter I, p. 37.

[40] *Op. cit.* p. 51.

[41] Provisional data covering the first three quarters, on the growth of manufacturing output in the market economies, show a slight acceleration of growth. However, production losses in Italy during the last quarter 1969, stagnation in the United States and in general lower growth rates towards the end of the year indicate that growth for the full year will be less than between 1967 and 1968.

[42] According to United Nations statistics the average unit values of the market economies' exports of manufactures increased by 3 per cent between the third quarter 1968 and the third quarter 1969; for all primary commodities the corresponding increase was 6 per cent. (See United Nations, *Monthly Bulletin of Statistics*, February 1970—*Selected series of world statistics.*)

TABLE 11

World trade growth

(Annual percentage changes)

Year	*Values*			*Volumes*		*Implied price changes* [a]	
	Total world trade	*World (excluding Class III)*		*World (excluding Class III)*		*World (excluding Class III)*	
		Imports	*Exports*	*Imports*	*Exports*	*Imports*	*Exports*
1961 . . .	4.6	4.3	4.7	4.8	4.8	−0.5	−0.1
1962 . . .	5.7	6.1	4.8	6.9	5.7	−0.7	−0.9
1963 . . .	8.8	8.6	9.2	7.5	7.5	1.0	1.6
1964 . . .	11.9	12.2	12.3	10.0	10.0	2.0	2.1
1965 . . .	8.3	8.6	8.3	7.3	7.3	1.2	0.9
1966 . . .	9.2	9.9	9.7	8.5	7.6	1.3	2.0
1967 . . .	5.4	5.0	5.1	5.5	4.7	−0.5	0.4
1968 . . .	11.1	11.2	11.8	11.9	12.0	−0.6	−0.2
1969 [b] . . .	14.0	12.9	14.1	11.5	11.5	1.3	2.3

Sources: United Nations, *Yearbook of International Trade Statistics*; United Nations, *Monthly Bulletin of Statistics.*

[a] Note that volume growth is calculated from index numbers given without decimals; the implied price changes are consequently uncertain within rather wide limits.

[b] Based on data for January-September.

economic activity in 1969 resulted in a price recovery, as for forestry products (sawnwood, pulp, paper).

The dynamic centre of world trade growth shifted in 1969 from North America to the other developed western countries, particularly western Europe, but there was also some acceleration in imports into the developing countries, as well as into eastern Europe. While economic growth in North America slowed down, there was an acceleration in western Europe and in Australia, New Zealand and South Africa, while Japan maintained its high growth rate.

As is shown in table 12, based on data covering the first three quarters of 1969, the value of intra-west European trade increased by over 20 per cent in 1969, almost twice as fast as in 1968, whereas west European exports to the rest of the world increased more slowly than in 1968. This latter development resulted almost entirely from the reduction in export growth to North America from 23 per cent in 1968 to 5 per cent in 1969. Exports to all extra-west European countries other than North America, on the other hand, increased faster in 1969 (by some 12 per cent) than in 1968 (8 per cent). This acceleration affected exports to other overseas developed countries as well as to developing countries in Africa and exports to eastern Europe also grew faster than in 1968. Nevertheless, some four-fifths of western Europe's export expansion in 1969 consisted in higher intra-trade; in the immediately preceding years this proportion had been substantially less as west European exports to the rest of the world had grown faster than intra-trade.

The acceleration of west European economic growth in 1969 was reflected in the faster increase in imports from the rest of the world, from 8 per cent in 1968 to 12 per cent in 1969 (in 1967 these imports had hardly grown at all). This acceleration affected all the countries or regions identified in table 12, except developing Asia. In 1969 the latter region's export expansion was largely directed to Japan, whereas its major European customer, the United Kingdom, increased imports relatively little (see table 13). The relatively largest changes occurred in imports from Latin America (and mainland China) reflecting the resumption of copper exports after the strikes in the Chilean mines in 1968, and of meat exports from Argentina, as well as higher prices for coffee and cocoa. There was also an acceleration in west European import growth from eastern Europe, notably from Hungary and Czechoslovakia; judging from incomplete data, imports of manufactures increased particularly fast.

The expansion of intra-west European trade in 1969 affected most of the 342 individual trade flows, with, however, the EEC countries generally recording both

TABLE 12

Western Europe's[a] trade by area of origin and destination

(Millions of current dollars and percentage change over corresponding period of previous year)

Area of origin for imports and of destination for exports	*Imports c.i.f.*					*Exports f.o.b.*				
	1968 values	*Percentage change*				*1968 values*	*Percentage change*			
		1967	*1968*	*1969*			*1967*	*1968*	*1969*	
				First half	*January-September*				*First half*	*January-September*
Western Europe[b]	66 057	5	11	23	22	65 127	5	11	23	22
of which:										
EEC	43 537	5	13	26	24	38 484	4	15	28	26
EFTA and Finland	19 344	3	8	17	18	21 489	6	6	14	14
Rest of western Europe	3 176	8	7	15	18	5 154	6	6	20	21
Rest of the World	44 348	1	8	13	12	36 980	6	12	11	10
of which:										
United States and Canada	13 802	−1	8	11	10	11 479	5	23	5	5
Eastern Europe[c] and Soviet Union	4 757	4	6	11	12	4 719	17	8	10	12
Japan	1 517	10	12	14	14	1 123	40	5	17	18
Australia, New Zealand, South Africa	3 032	−6	4	13	11	3 183	4	1	8	8
China (mainland)	376	−7	−4	21	21	515	29	−17	7	−10
Developing countries	20 792	2	8	14	13	15 556	1	12	16	15
of which:										
America	5 115	1	−3	13	15	4 416	4	14	14	13
Africa	7 526	—	14	20	19	4 985	3	8	19	16
Asia	8 060	5	11	9	6	6 028	−2	13	15	15
Total World (including unspecified)	110 405	3	10	19	18	102 107	5	12	18	18

Sources: OECD, Statistics of Foreign Trade, Series A, *Over-all trade by countries*; and national trade statistics.

[a] For the United Kingdom and Ireland, general exports, including re-exports.

[b] Including Gibraltar and Malta.

[c] Excluding the trade between eastern and western Germany

TABLE 13

Western Europe's total trade by individual countries and groups of countries

(Millions of current dollars and percentage changes from corresponding period of previous year)

Country or area	Imports c.i.f.						Exports f.o.b.						Balance: exports f.o.b. minus imports c.i.f.		Change in balance over corresponding period of previous year		
	Value in 1969	Percentage change					Value in 1969	Percentage change									
					1969						1969					1969	
		1967	1968	1969	1st half	2nd half		1967	1968	1969	1st half	2nd half	1968	1969	1968	1st half	2nd half
Belgium-Luxembourg	9 960	—	16	20	19	20	10 028	3	16	23	20	25	−143	68	−15	32	179
France	17 392	4	13	24	36	13	15 020	4	12	18	28	9	−1 277	−2 372	−253	−713	−382
Western Germany	24 949	−4	16	24	24	24	29 057	8	14	17	17	17	4 693	4 108	308	−294	−291
Italy	12 450	13	6	21	23	20	11 729	8	17	15	22	9	−69	−721	926	−68	−584
Netherlands	10 997	4	12	18	16	20	9 969	8	15	20	19	20	−951	−1 028	99	16	−93
EEC	75 748	2	13	22	25	19	75 803	7	14	18	21	16	2 253	55	1 065	−1 027	−1 171
Austria	2 853	−1	8	14	10	18	2 413	7	10	21	18	24	−509	−440	−8	47	22
Denmark	3 800	5	3	18	17	19	2 958	3	4	15	16	13	−631	−842	29	−74	−137
Finland	2 023	−2	−6	27	18	36	1 985	1	7	21	16	26	43	−38	206	−26	−55
Norway	2 943	14	−2	9	1	17	2 203	11	12	14	19	9	−768	−740	242	167	−139
Portugal	1 233	—	3	19	−4	37	822	9	7	12	16	9	−307	−411	22	69	−173
Sweden	5 899	3	9	15	15	16	5 688	6	9	15	16	14	−184	−211	−9	4	−31
Switzerland	5 302	5	10	18	15	20	4 683	7	15	16	17	16	−480	−619	126	−6	−133
United Kingdom [a]	20 046	6	7	6	7	5	17 493	−2	7	14	12	16	−3 612	−2 553	−270	292	767
EFTA	44 099	5	6	12	10	13	38 245	2	8	15	15	16	−6 448	−5 854	338	476	120
Greece	1 594	−3	17	15	32	2	554	22	−6	18	8	26	−924	−1 040	−233	−174	57
Iceland	123	2	−15	−11	−17	−7	108	−31	−15	32	14	47	−56	−15	10	16	25
Ireland [a]	1 414	3	9	20	23	18	887	15	2	11	11	11	−377	−527	−84	−90	−60
Spain	4 233	−3	1	20	15	25	1 903	10	15	20	23	17	−1 933	−2 330	167	−83	−314
Turkey	754	−5	12	−2	2	−6	537	7	−5	8	6	10	−274	−217	−106	7	50
Yugoslavia	2 135	8	5	19	24	14	1 475	3	1	17	14	19	−537	−660	−82	−122	−1
Rest of western Europe	10 253	—	6	16	18	14	5 464	8	4	14	15	17	−4 101	−4 789	−328	−446	−243
Total western Europe	130 100	3	10	17	19	16	119 512	5	12	17	18	16	−8 296	−10 588	1 075	−998	−1 294

Sources: OECD, Foreign Trade, Series A and Main Economic Indicators; ECE, *Statistical Indicators of Short-term Economic Changes in ECE. countries*; Bank for International Settlements; and national trade statistics.

[a] General exports.

higher import and export growth than the others. There was a particularly fast expansion in intra-EEC trade, by 28 per cent between January-September 1968 and January-September 1969. Intra-trade among the EFTA countries increased by not much more than half that rate, largely through the slow growth of imports into the United Kingdom. The fastest growth, however, related to the smallest of the intra-west European trade flows—trade among the countries outside the EEC and EFTA—concentrated on exports from Spain and Turkey and on imports into Yugoslavia and Turkey.

Intra-west European trade

(Percentage changes based on exporters' data in current prices)

Exports to: *from:*	EEC	EFTA (including Finland)	Rest of western Europe	Total western Europe
EEC				
1957 to 1967 *a* . . .	13.1	7.8	12.7	11.2
1967 to 1968	18.0	7.0	3.3	13.7
1968 to 1969 *b* . . .	28.2	13.5	19.2	23.6
EFTA (including Finland)				
1957 to 1967 *a* . . .	6.5	9.2	8.7	8.0
1967 to 1968	9.9	6.0	8.9	8.0
1968 to 1969 *b* . . .	19.0	15.7	22.1	17.8
Rest of western Europe				
1957 to 1967 *a* . . .	9.6	7.1	7.7	8.3
1967 to 1968	0.2	3.0	19.9	2.3
1968 to 1969 *b* . . .	28.3	7.8	34.1	18.7
Total western Europe				
1957 to 1967 *a* . . .	11.0	8.3	11.0	10.0
1967 to 1968	15.5	6.4	5.7	11.5
1968 to 1969 *b* . . .	26.2	14.1	20.7	21.7

Sources: OECD, Foreign Trade, Series A, *Over-all trade by countries*; and national statistics for Finland.

a Compound rate of change between 1957 and 1967.

b Development between first three quarters of 1968 and 1969.

As was shown above, 1969 was marked in western Europe by very fast economic growth. GDP in the industrial west European countries grew by about 6 per cent and industrial output by almost 9 per cent. Similarly fast growth rates occurred in 1951, 1955 and 1960, each time accompanied by fast growth in the volume of west European imports. As in earlier years of fast production growth, the import elasticity against GDP growth, in volume terms, was in 1969 as high as 2.3, compared with about 2 in 1968 and only 1.3 in 1967.[43]

One reason for the high import elasticities in boom periods is that an acceleration of economic growth is accompanied by fast wage and price increases. Although prices in international trade increased in 1969 by some 3 per cent (in the two preceding years prices had tended to fall), domestic prices increased considerably more. Thus the price advantages of imports are revealed particularly in years of exceptionally high economic growth. This is in itself a reflection of the benefits of international specialization and trade: for any one individual country, however big, the still larger world market has more elastic supply conditions. In a period of above-average economic growth, when delivery periods tend to lengthen and temporary and specific bottlenecks are created, international trade consists increasingly of product swapping between and within industries. This is particularly important for capital equipment, and in most west European countries industrial investments were advancing rapidly in 1969.

Furthermore, as prices of internationally traded primary commodities as well as of semi-finished manufactures tended to increase, most countries aimed at increasing their inventories. In particular, France, the Netherlands and Sweden report substantial additions to inventories in 1969.

Among the more specific reasons for trade growth in 1969 were that strikes in the Chilean copper mines had reduced world trade in copper in 1968, and several countries restricted imports of motor-cars in various ways in that year so that an exceptionally big increase in intra-west European trade in cars occurred in 1969.

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[43] These elasticities relate to total merchandise imports, that is including intra-west European trade. That the import elasticities in the individual countries were higher in 1968 and/or 1969 than the corresponding elasticities for the whole period 1953 to 1967 is shown in the table below:

The elasticity of volume growth of imports with respect to volume growth of GDP

	1953 *to* 1967 *a*	1967 *to* 1968	1968 *to* 1969 *b*
Austria	2.2	3.0	2.1
Belgium	2.3	4.8	2.5
Denmark.	2.0	0.9	2.3
Finland	1.7	1.9	2.2
France	1.8	3.7	2.4
Western Germany . .	1.9	2.4	2.4
Ireland.	2.4	3.4	3.5
Italy	2.3	1.0	3.4
Netherlands	1.7	2.3	3.1
Norway *c*	. .	1.8	3.6
Sweden	1.7	2.1	3.2
Switzerland.	. .	2.2	3.2
United Kingdom . .	1.7	3.1	1.1

a Based on comparison between the 1953-1957 and the 1963-1967 averages.

b While import values refer to the full year the price deflator refers to the January-September period.

c Excluding ships.

(ii) The impact of the 1967 devaluations on trade of the devaluing countries

Judged by the rates of growth of total trade between 1967 and 1969, the experience of the five major [illegible] European countries that devalued in 1967[44] has differed very considerably. Ireland's imports, for instance, increased at well over twice the rate of the United Kingdom's, while the rate of growth of Spain's exports was almost three times as large as Ireland's. Spain was the only devaluing country to exceed the rate of growth, in terms of value, of western Europe's total exports (the very large increase in the area's total exports, however, was due in large part to the exceptionally big increase in intra-EEC trade).

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[44] Finland by 23.8 per cent in October, the United Kingdom Ireland and Spain by 14.3 per cent and Denmark by 7.9 per cent in November. Because a large proportion of the trade of Denmark, Finland and especially of Ireland is with the United Kingdom, their effective or average devaluations were appreciably smaller than the nominal rates.

Increases in imports and exports (dollar values) and GDP (volume), 1967 to 1969

(Percentages)

	Denmark	*Finland*	*Ireland*	*Spain*	*United Kingdom*	*Total western Europe*
Imports	21.3	19.7	31.5	22.1	13.2	28.8
Exports	19.6	30.0	13.3	38.3	21.7	30.8
GDP	10.6 [a]	10.6	8.8 [a]	13.1	5.0	
Elasticity of import to GDP growth [b] . . .	2.0	1.9	3.6	1.7	2.6	
	(1.9)	(1.6)	(2.7)	(2.3)	(1.5)	
Elasticity of export to GDP growth [b] . . .	1.8	2.8	1.5	2.9	4.3	
	(1.8)	(1.4)	(2.9)	(1.3)	(1.7)	

[a] GNP

[b] Elasticities (trade in value, GDP in volume) for the period 1953-1957 to 1963-1967 in parentheses. See "Trade dependence in European countries, 1953 to 1967", *Economic Bulletin for Europe*, Vol. 21 No. 1, Part B, table 1. The corresponding elasticities for imports in volume terms are given in footnote 43 above.

In the first two years after devaluation the elasticities of total import growth (in terms of dollar values) with respect to GDP growth (volume) were almost 2—close to those in the 1953-1957 to 1963-1967 period—in Denmark and Finland, while in the United Kingdom (2½) and in Ireland (3½) they were well above the longer-term rates. Only in Spain was the import elasticity significantly lower after devaluation than the average in the preceding period. Thus devaluation appears to have had little if any impact on import growth in the past two years, except in Spain. The corresponding export elasticities were well above the longer-term levels in Finland, Spain and the United Kingdom, but about the same in Denmark and substantially lower in Ireland.

Some data are presented below on the impact of devaluation on these countries' trade and on the differences between them.[45] The data are in terms of dollar values and the period covered is the first nine months of 1967 to first nine months 1969: the growth rates of total imports and of exports were of the same order of magnitude in the nine-month and the annual periods (shown above), apart from Finnish and Spanish imports and British exports, where the growth rates were markedly higher for the annual than the nine-monthly comparisons.

Exports

Exports: changes between first three quarters 1967 and first three quarters 1969

(Percentages)

	Denmark	*Finland*	*Ireland*	*Spain*	*United Kingdom*	*Total OECD*
Prices in terms of:						
National currencies .	6	29	13	2	11	
Dollars	−2	−2	−3	−13	−5	2 [a]
Volume	22	27	15	55	20	26 [a]
Values: total	19	25	10	37	14	28
manufactures [b] . . .	36	32	37	73	16	33
non-manufactures .	3	13	1	7	6	13

[a] Total western developed countries.

[b] SITC 5-8; non-manufactures, SITC 0-4.

Spain was the only country to show substantially lower dollar prices of exports in the first three quarters of 1969 than in the period immediately before devaluation. It was also the country with much the largest increase in export volume: between the first three quarters of 1967 and of 1969 its growth was twice the average for all western developed countries, whereas the volume growth of exports for the other four countries was either near or below average in this period.

As would be expected, manufactured goods accounted for most of the increase in the dollar values of exports; in part this was simply a reflection of the faster growth of world trade in manufactures than in other commodities, a tendency particularly marked during periods of fast expansion such as the past two years. The over-all export growth rates were brought down by the relatively small increase of non-manufactures where, apart from Finland, the rates of increase were well below the average for western developed countries.

The commodity pattern of growth within total manufactures varied significantly between the five countries, a pattern partly explained by the tendency for growth rates to be largest where the initial level is lowest.

Among the non-manufactured commodity divisions, the exports of Denmark, Ireland and Spain are of course overwhelmingly concentrated in agricultural products. Devaluation appears to have had virtually no impact on the dollar value of this trade, apart from small initial declines due to lower dollar prices (for Ireland and Denmark, mainly in exports to the United Kingdom). Changes in the volume of agricultural exports largely reflected changes in foreign demand conditions.

Increases in dollar values of manufactured exports, first three quarters 1967 to first three quarters 1969

(Percentages; values in $10 millions in first three quarters 1967 in parentheses)

	Denmark	*Finland*	*Ireland*	*Spain*	*United Kingdom*	*Total OECD*
Chemicals	61	43	83	19	13	29
	(11)	(2)	(2)	(7)	(107)	
Semi-manufactures . .	37	22	25	72	17	30
	(15)	(52)	(6)	(14)	(272)	
Machinery and transport equipment	29	49	26	100	14	36
	(42)	(15)	(3)	(12)	(456)	
Miscellaneous	37	79	41	78	24	36
	(16)	(5)	(5)	(11)	(87)	

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[45] For a description of the initial response of French and west German foreign trade prices to their 1969 exchange rate changes, see section 5 (*i*) below.

The devaluation also had little effect on Finland's exports of wood and pulp, prices adjusting almost immediately to world prices; the increase in 1969 in the dollar value of these exports (and hence of Finland's total non-manufactured exports) seems to have been attributable to the improvement of world prices. Devaluation thus resulted in an acceleration in the shift towards manufactures in the exports of those four countries. This development was especially marked for Spain where the share of manufactures in total exports rose from 42 per cent in the first nine months of 1967 to 57 per cent in the first nine months of 1969; for Ireland the corresponding increase was from 30 to 36 per cent, for Denmark from 46 to 53 per cent, and for Finland from 65 to 69 per cent.

The market distribution of exports

A substantial part of Ireland's relatively poor export performance in the post-devaluation period can be attributed to its heavy dependence on the United Kingdom market. Not only did this market expand relatively slowly, but as both countries devalued by the same amount Ireland gained no price advantage over British domestic competitors. In the United States, the EEC and developing countries, Ireland achieved rates of increase comparable with those of the smaller devaluing countries.

Percentage distribution of exports by main markets

(First three quarters 1967)

Market	*Exporting country*				
	Denmark	*Finland*	*Ireland*	*Spain*	*United Kingdom*
United States	7	6	9	15	12
EEC	23	23	9	33	19
EFTA	51	37	74	20	15
of which:					
United Kingdom	24	20	73	10	—
Developing countries	9	6	3	22	25
Rest of world	10	28	5	10	30

Percentage increase of exports to main markets

(First three quarters 1967 to first three quarters 1969)

Market	*Exporting country*					
	Denmark	*Finland*	*Ireland*	*Spain*	*United Kingdom*	*Total OECD*
United States	40	41	35	41	22	43
EEC	21	28	35	29	22	39 [a]
EFTA	15	34	1	28	12	17
of which:						
United Kingdom	3	14	1	28	—	13
Developing countries	24	25	40	68	11	23
Rest of world	10	7	38	11	10	18
Total world	19	25	10	37	14	28

[a] Excluding intra-EEC trade: 27 per cent.

Finland's over-all export performance was adversely affected by its relatively heavy dependence on the east European market, which took over a fifth of its total exports before devaluation and to which the dollar value of Finland's exports increased by only 3 per cent between the first three quarters of 1967 and of 1969. (None of the devaluing countries recorded increases of any note in eastern Europe; the time-lag between orders and delivery, in view of the concentration of demand on large scale sales of plant and equipment, probably precluded any real gains from devaluation in this market in the short term.)

The United Kingdom export performance was least favourable, in relation to that of the other devaluing countries, in the developing countries. It was in this market that Spain achieved its largest increase, both in absolute and relative terms; although still predominantly to Latin America, the growth of this trade was particularly fast to Africa and the Middle East. The over-all growth rate of British exports in this period was also pulled down by the decline of 10 per cent in the dollar value of its exports to the group Australia, New Zealand and South Africa, which together account for over one-tenth of total British exports.

The development of the devaluing countries' exports in the United States and EEC markets—the two major industrial markets in which they compete on equal terms—gives some indication of their relative export performances in this period.

Percentage shares of United States imports from:

First three quarters	*United Kingdom*	*Denmark*	*Finland*	*Spain*
1964	6.03	0.67	0.39	0.62
1965	6.26	0.69	0.39	0.64
1966	6.73	0.82	0.38	0.62
1967	6.34	0.71	0.34	0.80
1968	6.33	0.67	0.31	0.95
1969	5.92	0.71	0.33	0.84
Percentage shares of EEC imports from outside the EEC:				
1964	9.79	1.98	1.54	1.59
1965	9.13	2.07	1.54	1.43
1966	8.91	1.90	1.41	1.49
1967	8.97	1.82	1.33	1.54
1968	8.89	1.78	1.25	1.38
1969	9.09	1.71	1.39	1.64

Note. — Figures are based on import data; they therefore differ from those in previous text table.

Only Spain achieved a higher share of both markets after devaluation (comparing 1969 with 1967); its exports to the United States, however, were already tending to rise faster than total imports before devaluation. Judging by the behaviour of total trade, the large increases in Danish, Finnish and British exports to the United States and the EEC between the first three quarters of 1967 and of 1969 tended to be attributable to the expansion of import demand rather than to the displacement of third countries' exports; but the general increase between 1968 and 1969 in these countries' shares of the two markets suggests that this tendency has now been reversed. However, the increase in the proportion of the EEC market held by the United Kingdom was due to the concentration of its exports in the relatively fast-growing manufacturing sector, and not to any increase in the share of manufactured imports.

Imports

The most surprising development on the import side has been the big increases in imports of manufactured goods into Denmark, Ireland and the United Kingdom: much the greater part of the increase in the total value of imports into these countries between the first nine months of 1967 and 1969 was due to manufactures. The sharp increase in import prices relative to domestic prices—the sterling unit value of imported British manufactures, for instance, rose by some 16 per cent between the third quarter of 1967 and the first quarter of 1968 compared with a rise of about 2½ per cent in consumer prices—might have been expected to cause a fall in the volume of imports. But the volume index of total United Kingdom imports in the first half of 1968 was 9 per cent higher than a year before, while the index for manufactured imports had risen by 13 per cent. Furthermore, the increases cannot be explained by a few items: they were spread over most commodity groups.

Imports: changes between first three quarters 1967 and first three quarters 1969

(Percentages)

	Denmark	*Finland*	*Ireland*	*Spain*	*United Kingdom*
Prices [a]	9	37	14	11	16
Domestic wholesale prices [b]	6	23	13	3	7
Volume	21	9	30	20	13
Values:					
total	19	14	28	13	12
manufactures	25	15	42	9	26
non-manufactures	5	11	6	19	1

[a] In terms of national currencies.

[b] For Denmark, home market goods; Finland, investment goods; Ireland and United Kingdom, manufactured goods; Spain, industrial goods.

The failure of British and Irish imports to respond as expected to devaluation may be partly attributable to the comparatively high pressure of domestic demand in the period immediately following devaluation. The growth of imports has flattened out—but not fallen—in recent months. But this has probably been associated with the lower levels of domestic demand; it would seem improbable that the reaction to devaluation on imports has been delayed as it appears to have been on exports. Resumption of a more normal growth rate might lead to quite a sharp rise in United Kingdom imports, as has occurred in Spain and Finland during the past year. In view of the recent marked upturns in these two countries' imports it appears that their comparatively small import growth in the period immediately following devaluation was associated more with their relatively slow domestic growth in that period than with the impact of price developments.

Some tentative conclusions may be drawn from developments following the 1967 devaluations, always bearing in mind that they were followed by a period of rapid expansion in world trade and of pressure on supplies. The most significant is the negligible effect on import propensities of the exchange rate changes, in spite of the marked increases in import prices. The secular trend for imports, especially of manufactures, to increase faster than GDP appears to be a stronger influence on import propensities than changes in relative prices at the present time.

On the export side, except for Spain there has been no significant increase so far in market shares—at least in the United States and the EEC—although for the United Kingdom the persistent fall in its share of the EEC market has been checked. In the first two years following the devaluations, export increases seem to have been attributable to a large extent to the growth of world demand. It is notable that Spain, the only one of the five countries in which devaluation resulted in significantly lower dollar prices of exports in the period examined, had a markedly faster export growth to most markets and in most manufactured commodity divisions than the other four countries.

The smaller devaluing countries' export expansions were adversely affected, in varying degrees, by relatively heavy dependence on non-manufactures and on slow-growing markets, or on markets where little response to devaluation was to be expected in the short term. The principal benefit these countries have derived from devaluation has probably been the impetus to expand exports of manufactures and thus reduce dependence on their traditional, slow-growing export commodities.

(iii) Balance-of-payments developments and international liquidity

Current account

The acceleration of output growth in western Europe in 1969 appears to have led to a small reduction of the region's surplus on current account (goods, services, private and government transfers) *vis-à-vis* the rest of the world, an increase in the region's surplus on invisibles partly offsetting a larger trade deficit. The improvement in invisibles was to a large extent accounted for by a bigger increase in western Europe's income from investment in the United States than the latter's investment income from the region. Western Europe's net income on shipping account does not appear to have recorded a significant change, the higher volume of shipping being offset by falling freight rates.

By far the most important changes within the region were those of the United Kingdom, western Germany and France (see table 14). The swing of the United Kingdom's current account from a deficit of $0.7 billion in 1968 to a surplus of about $0.9. billion in 1969—the largest recorded since 1950—was due to a substantial reduction in the trade deficit and only to a lesser extent to an increase in the surplus on invisibles. The reduction in western Germany's considerable current surplus by about $1 billion, on the other hand, was the result of a decline in its export surplus and an increase in its net payments on invisibles. The increase in the French current deficit reflected the considerable widening of the trade deficit. The other countries of the region experienced relatively small changes, in absolute values, in their respective cur-

TABLE 14

Current account and changes in reserves in western Europe and the United States

(Millions of current dollars)

Country or area	*1968*		*1969*		*Total reserves at the end of 1969*
	Current account	*Change in reserves*	*Current account*	*Change in reserves*	
Belgium-Luxembourg	34	−403	82	199	2 386
France	−1 368	−2 793	−1 800 *	−368	3 833
Western Germany	2 838	1 796	1 823	−2 814	7 134
Italy	2 673	−121	2 500 *	−337	5 005
Netherlands	69	−156	—	66	2 529
EEC	(4 246)	(−1 677)	(2 605)	(−3 254)	(20 887)
Austria	−83	26	99	27	1 537
Denmark	−240	−85	−413	−3	446
Finland	64	170	31 *	5	359
Norway	152	25	92	13	715
Portugal (Escudo Area)	131	129	200 *	46 [a]	1 408 [a]
Sweden	−233	−26	−371	−119	696
Switzerland	545	377	620	63	3 995
United Kingdom	−742	−273	878	105	2 527
EFTA	(− 406)	(343)	(1 136)	(137)	(11 683)
Greece	−248	36	−343	−28 [a]	294 [a]
Iceland	−48	−6	−8	10	39
Ireland	−53	106	−156	146	691
Spain	−260	46	−500	−262	833
Turkey	−157	4	−140 *	115 [a]	238 [a]
Yugoslavia	−109	52	−160	122	254
Rest of western Europe	(−875)	238	(−1 307)	103	(2 349)
Total of western Europe	(2 965)	(−1 096)	(2 434)	(−3 014)	(34 919)
United States	−349	880	−739	1 254	16 964

Sources: IMF, *International Financial Statistics*, February 1970; national statistics; and secretariat estimates.
[a] End November.

rent accounts. In all remaining industrial countries of the region there was a minor deterioration, except for Austria, Belgium and Switzerland which recorded improvements.

Changes in current account are affected by two forces pulling in opposite directions: the expansionary impulse from domestic demand which tends to lead to a deterioration of the current account through a fast growth of imports, and the increase of external demand which leads to an expansion of exports and an improvement of the current account.

The relative strength in each year of the domestic expansionary impulse may be calculated as the deviations from the 1960-1968 average in the increase of domestic expenditure (consumption, fixed investment and stock changes) over the previous year's GNP, expressed in current prices and as percentages of the previous year's GNP. These deviations are shown in table 15, together with the current account [46] (as a percentage of GNP of the previous year) and its deviations from its 1960-1968 average.

In most countries there is a fairly high correlation between the second and the third lines, indicating that fluctuations in a country's current balance depend to a large extent on changes in domestic demand. This is particularly true for years when the expansionary impulse is either much above or much below the average. In the table there are 29 cases with a deviation in the expansionary impulse of 3 per cent or more; for 28 of these the deviation in current account has the opposite sign. Only in Finland in 1962 was an exceptionally slow increase in the expansionary impulse accompanied by a smaller than average current account balance.

But no perfect correlation can be expected for at least two reasons: the domestic expansionary impulse may well be a reflection of a strong volume growth of GNP which in its turn may result from fast export growth (here the problem of time-lags is pertinent), and the country may have benefited from a strong pull from its export markets or *vice versa*. Since, however, the domestic impulse as here defined already contains possible repercussions from external demand, no attempt is made to measure that effect explicitly; to be of any explanatory value, such a measurement would have to be disaggregated by commodities and markets.

In 1969,[47] five countries experienced a smaller than average expansionary impulse and at the same time a

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[46] For this purpose, the most relevant definition of the current account excludes transfers (public and private) and therefore differs from the current account in table 14.

[47] Sufficiently precise data for Belgium and Italy are lacking.

TABLE 15

The current account, its deviations from the 1960-1968 average and deviations of the expansionary impulse (E.I.) from its 1960-1968 average

	Average 1960-1968	*1960*	*1961*	*1962*	*1963*	*1964*	*1965*	*1966*	*1967*	*1968*	*1969*
Austria											
1. Current account	−1.0	−1.5	−0.5	0.3	−0.1	−0.4	−1.1	−2.9	−1.8	−1.3	−1.0
2. Deviations of current account		−0.5	0.5	1.3	0.9	0.6	−0.1	−1.9	−0.8	−0.3	—
3. Average E.I. and deviations	9.4	4.6	1.1	−3.6	−1.6	0.1	0.8	2.1	−1.1	−2.4	−1.0
Belgium											
1. Current account	0.2	0.3	−0.1	0.6	−0.6	0.0	1.0	−0.4	0.9	0.1	. .
2. Deviations of current account		0.1	−0.3	0.4	−0.8	−0.2	0.8	−0.6	0.7	−0.1	
3. Average E.I. and deviations	7.4	−1.2	−1.4	−1.0	0.9	4.7	0.2	0.6	−1.6	−1.2	. .
Denmark											
1. Current account	−1.7	−1.0	−1.6	−3.4	0.5	−2.2	−1.6	−1.6	−2.2	−1.9	−2.7
2. Deviations of current account		0.7	0.1	−1.7	2.2	−0.5	0.1	0.1	−0.5	−0.2	−1.0
3. Average E.I. and deviations	12.1	−3.2	0.3	4.0	−6.3	4.4	1.8	−0.7	0.1	−0.6	1.9
Finland											
1. Current account	−1.5	−1.0	−1.4	−1.7	−0.4	−2.8	−2.7	−2.5	−1.8	1.0	0.6
2. Deviations of current account		0.5	0.1	−0.2	1.1	−1.3	−1.2	−1.0	−0.3	2.5	2.1
3. Average E.I. and deviations	11.7	1.7	1.0	−3.1	−2.5	5.7	0.6	1.7	1.7	−0.1	−1.8
France											
1. Current account	0.8	2.1	1.7	1.0	1.0	−0.0	1.1	0.4	0.4	−0.0	−0.4
2. Deviations of current account		1.3	0.9	0.2	0.2	−0.8	0.3	−0.4	−0.4	−0.8	−1.2
3. Average E.I. and deviations	8.9	−0.3	−1.7	2.0	2.8	2.0	−2.7	−0.7	−1.7	0.3	7.0
Western Germany											
1. Current account	2.0	3.3	2.3	1.1	1.4	1.4	−0.1	1.4	3.4	3.8	2.9
2. Deviations of current account		1.3	0.3	−0.9	−0.6	−0.6	−2.1	−0.6	1.4	1.8	0.9
3. Average E.I. and deviations	6.0	2.3	1.7	1.6	−0.9	2.2	3.6	−1.2	−8.4	−0.6	2.8
Italy											
1. Current account	1.1	0.1	0.4	−0.3	−2.6	0.6	3.5	2.9	1.9	3.4	. .
2. Deviations of current account		−1.0	−0.7	−1.4	−3.7	−0.5	2.4	1.8	0.8	2.3	. .
3. Average E.I. and deviations	9.1	−0.8	1.3	3.8	8.1	−0.2	−2.9	−3.9	−1.7	−5.2	. .
Netherlands											
1. Current account	0.7	3.3	1.6	1.4	0.6	−1.1	0.4	−0.7	−0.1	0.5	0.6
2. Deviations of current account		2.6	0.9	0.7	−0.1	−1.8	−0.3	−1.4	−0.8	−0.2	−0.1
3. Average E.I. and deviations	9.5	−1.6	−5.1	−3.7	−1.1	9.2	1.7	−0.1	0.7	0.1	0.8
Norway											
1. Current account	−2.3	−3.0	−4.4	−3.8	−3.6	−1.4	−1.7	−2.2	−2.7	1.9	1.2
2. Deviations of current account		−0.7	−2.1	−1.5	−1.3	0.9	0.6	0.1	−0.4	4.2	3.5
3. Average E.I. and deviations	11.0	−1.8	2.3	0.6	0.4	1.0	1.5	0.1	1.6	−5.7	−4.4
Sweden											
1. Current account	−0.2	−0.5	0.7	0.4	0.3	0.3	−1.1	−0.9	−0.3	−0.7	−0.8
2. Deviations of current account		−0.3	0.9	0.6	0.5	0.5	−0.9	−0.7	−0.1	−0.5	−0.6
3. Average E.I. and deviations	9.0	0.2	−0.3	−1.1	−0.6	2.0	2.4	1.0	−1.2	−2.4	1.0
Switzerland											
1. Current account	0.9	2.0	−1.1	−1.8	−1.6	−1.7	1.5	2.8	3.3	5.0	5.2
2. Deviations of current account		1.1	−2.0	−2.7	−2.5	−2.6	0.6	1.9	2.4	4.1	4.3
3. Average E.I. and deviations	8.2	−0.7	4.9	4.7	2.8	3.8	−1.6	−3.2	−5.0	−5.6	−4.9
United Kingdom											
1. Current account	0.5	−0.5	0.7	1.1	1.2	−0.5	0.7	1.1	0.3	0.3	1.2
2. Deviations of current account		−1.0	0.2	0.6	0.7	−1.0	0.2	0.6	−0.2	−0.2	0.7
3. Average E.I. and deviations	6.1	0.5	0.1	−2.0	−0.8	2.8	0.7	−0.7	−1.1	0.5	−1.6
United States											
1. Current account	0.9	0.8	1.1	1.0	1.0	1.4	1.1	0.8	0.7	0.3	0.2
2. Deviations of current account		−0.1	0.2	0.1	0.1	0.5	0.2	−0.1	−0.2	−0.6	−0.7
3. Average E.I. and deviations	5.8	−2.5	−3.6	0.9	−1.5	−0.0	1.4	3.0	−0.6	2.9	1.6

Sources: United Nations, *Yearbook of National Accounts Statistics*; OECD, *Statistics of National Accounts*; national accounts questionnaires; national statistics and secretariat estimates.

NOTE. — *Line 1: Current account* equals exports of goods and services *minus* imports of goods and services, *plus* net factor income from abroad (as in national accounts), at current market prices, expressed as a percentage of the GNP of the previous year at current market prices.

Line 2: Deviations of the current account from its 1960-1968 average.

Line 3: Average expansionary impulse (E. I.) in the years 1960-1968 and annual deviations from this average. *Expansionary impulse* equals national expenditure (i.e. consumption *plus* gross domestic-fixed capital formation *plus* change in stocks) of the current year at current market prices *minus* gross national product of the previous year at current market prices, expressed as a percentage of the latter.

better than average current account (Finland, Norway, Switzerland, the United kingdom; and Austria where the current account was exactly the average). Six countries had a bigger than average expansionary impulse; in five (Denmark, France, Netherlands, Sweden and the United States) the current account was worse than average; western Germany recorded both an above-average expansionary impulse and an above-average current surplus—the expansionary impulse in fact reflected a fast volume growth of GDP accompanied by fast export growth.

Capital movements

Two main changes took place in 1969 in the flow of long-term capital. The first was the substantial increase in the net outflow from the United States from the exceptionally low level of $0.5 billion in 1968 to approximately $3.0 billion in 1969. This reflected mainly the large reduction in foreign purchases of United States securities from the high 1968 level, partly because American corporations reduced their borrowing abroad through sales of bonds to foreigners for the financing of their foreign investments, following the steep increase of interest rates on the Eurobond market.[48]

The second major development was the further increase of the net outflow of " long-term " capital from western Germany; this amounted to $5.8 billion compared with the already high level of $2.9 billion in the previous year, which had been the highest in the post-war period. More than 40 per cent of the net outflow from western Germany in 1969 took place in the fourth quarter, and a large share of it reflected flows to the United States. The increase in the outflow was largely accounted for by credits extended by banks and by portfolio investment abroad, and reflected the highly liquid position of the German banking system and the prevailing interest rate differentials in favour of foreign financial markets.

Italy remained a net exporter of long-term capital in 1969; the net outflow is estimated to have been above the 1968 level, as the prevailing high interest rates abroad continued to attract Italian capital. By contrast, there was a switch from a net outflow of long-term capital from the United Kingdom in 1968 to a small and exceptional net inflow in 1969, as a result both of lower private investments abroad and of an increased inflow of private foreign capital. The latter included a loan of $125 million from the west German Government, following the agreement to offset the foreign exchange cost of stationing British troops in that country, and other borrowing by United Kingdom public authorities from western Germany amounting to $79 million.

In Austria, the improvement of the current account was partly offset by a net outflow of long-term capital following a bigger net inflow in 1968. In Belgium the increased surplus on current account was accompanied by a switch from a net outflow of capital in 1968 to a bigger net inflow in 1969. On the other hand, the increased Swedish current deficit was accompanied by a substantial net outflow of capital—both monetary and non-monetary—following the net inflow in 1968.

Short-term capital movements in 1969 were mainly influenced by the restrictive credit policy pursued by the United States and the speculative movements in antici-

TABLE 16

" Long-term " capital flows of major western countries

(Millions of current dollars)

Country	*Annual averages* 1960-1963	*Annual averages* 1964-1967	*1968*	*1969*
United States, Total	−3 385	−4 963	−486	−3 030
Private	−2 559	−3 178	1 835	−758
Government	−826	−1 785	−2 321	−2 272
United Kingdom, Total	−260	−566	−214	50
Private	−10	−330	−264	278
Government	−250	−236	50	−228
Western Germany, Total	−196	−354	−2 862	−5 845
Private	368	165	−2 526	−5 365
Government	−564	−519	−336	−480
France,[a] Total	−88	173	−712	. .
Private	398	303	−680	. .
Government	−486	−130	−32	. .
Italy, Total	474	49	−550 *	−850 *
Private	559	144	. .	. .
Government	−85	−95	. .	. .

Sources: IMF, *Balance of Payments Yearbook*; and national statistics.

[a] Flows between France and countries outside the Franc Area

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[48] US Department of Commerce, *Survey of Current Business*, March 1970, Volume 50, No. 3.

pation of the revaluation of the DM. As short-term rates on the money market in the United States moved well above the levels allowed by the Regulation Q on most types of time deposits in the course of 1969, the banks increased their borrowings on the Euro-dollar market through their foreign branches. The liabilities of United States banks to their foreign branches increased by $7.9 billion in the first eleven months of 1969 compared with an increase of $2.9 billion in the corresponding period of 1968. Practically the whole increase took place in the first six months of 1969. As a result of the demand pressure exercised on the Euro-dollar market, interest rates increased and a number of west European countries took measures to prevent an outflow of funds to the market. These were partly reflected in a rise of short-term interest rates in the main industrial west European countries in 1969. The Euro-dollar market also attracted short-term funds from the United States which were reflected in its balance of payments in a rather high negative item in net errors and omissions.

In June 1969 the Federal Reserve System announced its intention to impose reserve requirements on borrowings by United States banks on the Euro-dollar market, which were to be met by banks in mid-October 1969. This measure is intended to enable the Federal Reserve to exercise an influence on borrowing by United States banks abroad for lending to domestic customers.

Part of the outflow of short-term funds from the United States took place in anticipation of the revaluation of the DM and appears to have been reversed towards

TABLE 17

Change in official monetary reserves

(Millions of current dollars)

Country or area	*Position at end 1967*	*1968*	*1969*
United Kingdom: Total	2 695	−273	106
of which:			
Gold	1 291	183	−2
Foreign exchange	1 404	−456	108
Fund reserve position	—	—	—
Continental western Europe: Total	36 334	−823	−3 119 [a]
of which:			
Gold	20 975	−661	−758 [a]
Foreign exchange	11 469	−60	−835 [a]
Fund reserve position	3 890	−102	−1 526
United States: Total	14 830	880	1 254
of which:			
Gold	12 065	−1 173	967
Foreign exchange	2 345	1 183	−747
Fund reserve position	420	870	1 034
Canada and Japan: Total	4 739	1 208	807
of which:			
Gold	1 353	−134	66
Foreign exchange	2 714	1 519	131
Fund reserve position	672	−177	610
Oceania and South Africa: Total	2 341	742	−127
of which:			
Gold	815	686	−122
Foreign exchange	1 261	6	−103
Fund reserve position	265	50	98
All developed countries: Total	60 939	1 734	−1 079
of which:			
Gold	36 499	−1 099	151
Foreign exchange	19 193	2 192	−1 446
Fund reserve position	5 247	641	216
Developing countries: Total	12 460	1 165	1 060 [b]
of which			
Gold	2 895	525	45 [b]
Foreign exchange	9 064	544	993 [b]
Fund reserve position	501	96	22

Sources: IMF, *International Financial Statistics.*

[a] End of November for Greece, Portugal and Turkey.

[b] End of September estimated

the end of the year. A substantial outflow of short-term capital from western Germany was recorded in the fourth quarter of 1969, following the revaluation of the DM, which largely offset the considerable inflow during the second and third quarters.

Reserve changes and international liquidity

By far the largest change in official monetary reserves was recorded in 1969 by western Germany. As the net outflow of capital more than offset the surplus on current account, the country's reserves declined by $2.8 billion (to $7.1 billion at the end of 1969). Western Germany drew the equivalent of $540 million from the IMF in December, but this did not affect the level of its total reserves since it was within its gold tranche position in the Fund.

The decline in French official reserves in 1969 was considerably smaller than in the previous year; this reflected partly the reflux of funds following the devaluation of the franc in August, the net recourse to foreign credits by the Central Bank (the net amount of which for the whole year is not yet known), and partly also the drawing by France of $0.5 billion in September under its stand-by arrangement with the International Monetary Fund. Italy's reserves declined by more than in 1968, the substantial current surplus being more than offset by a bigger outflow of capital, mainly through exports of banknotes.

The large improvement of the basic balance of the United Kingdom was only partly reflected in the increase of the country's official reserves as there was a substantial repayment of debts to foreign central banks and the IMF. This was reflected in a decline in sterling liabilities to central banks in western Europe and North America in the first three quarters of 1969. It was largely offset, however, by an increase in sterling liabilities to the overseas sterling area countries, which had declined in 1968.

The United States deficit amounted to almost $7 billion in 1969, according to the liquidity definition, but there was a surplus of $2.8 billion on the official reserve transactions definition. The large discrepancy between the two reflects mainly the large increase in the liabilities of the United States banks to their foreign branches and also the attraction provided by the high interest rates prevailing on the Euro-dollar market to dollars held abroad by both private and central banks.

The United States official reserves increased in 1969 for the second consecutive year; the increase amounted to almost $1.3 billion and reflected a rise of both its gold holdings and of its reserve position in the IMF, which more than offset a reduction of its foreign exchange holdings, following the reversal of swaps with foreign central banks.

Total official reserves of all developed countries declined in 1969 by over $1 billion. The reserves of the developing countries are estimated to have increased by just over $1 billion in the first three quarters of 1969 (see table 17). Thus, it would appear that no increase in international liquidity was recorded in 1969, for the first time since 1959. Under the circumstances the allocation of the equivalent of $3.5 billion of Special Drawing Rights on 1 January 1970 appears to be a timely action. Moreover, an increase of the quotas of the International Monetary Fund by $7.6 billion was approved by the Governors of the Fund and will now be submitted to the consent of individual countries.

(iv) Recent developments in trade policies

In the field of trade policies the early part of the 1970s seems likely to be dominated by the same question that preoccupied most of the previous decade, namely whether the EEC will be enlarged through the admission of new members: at present the United Kingdom, Denmark, Norway and Ireland have applications for membership outstanding. In October 1969 the Common Market Commission issued a revised version of its 1967 document on the implications of the enlargement of the Community, suggesting that negotiations should start as soon as possible with these countries. It also recommended that new members should all join at the same time, although this did not necessarily mean that negotiations should be simultaneous, simply that the four accession treaties should take effect together. Suitable formulae would also have to be found for the relations of the other EFTA countries with the enlarged common market area.[49]

At the meeting of Heads of State of EEC countries in December it was agreed to open negotiations, though no date was fixed. After the meeting the Commission stated that it would be reasonable to expect negotiations with the United Kingdom to start in the middle of 1970. However, it will first be necessary to agree on a common Community position in the negotiations and on whether the Commission will undertake the negotiations on behalf of the Community; in addition, certain issues connected with the package deal in farm financing agreed in December have still to be resolved (the most important of which concerns the future powers of the European Parliament to control expenditure from the Community Fund). A further issue concerns the position, during the negotiations, of the EFTA members that have not applied for membership of the Common Market.

In the meantime the EEC has extended its network of trade agreements with other non-member countries. Negotiations for the renewal of the Yaoundé Convention with the Associated African States and Madagascar were concluded in July 1969, and an Association Agreement with the East African Community (Kenya, Uganda and Tanzania) was signed in September. Both agreements will expire not later than 31 January 1975. Partial association agreements, the first stage of which will last for five years and which are regarded as the first step towards over-all association, were signed with Tunisia and Morocco last year.[50]

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[49] See " Updating of the Commission's opinion on the enlargement of the Community " by Mr. E. Martino, *Bulletin of the European Communities*, November 1969.

Early in 1970 *Yugoslavia* signed a commercial agreement with the Common Market, which is based on MFN and GATT rules. For certain items the agreement provides for an immediate application of tariff cuts anticipated in the Kennedy Round which, however, will be extended to all countries enjoying MFN treatment. The agreement also establishes a co-operation régime for the import of " baby beef type " cattle and beef and provides that in specified periods of the year the levies will be reduced by 20-25 percentage points when the normal levies reach 75 and 100 per cent.

In February 1970 the EEC also completed negotiations with *Israel* for a preferential trading agreement, the initial phase of which will cover five years and which has as its objective the elimination of barriers to the bulk of trade. It is expected to enter into force this summer. This agreement is more limited in scope than the full Association Agreement that Israel requested when the earlier non-preferential trade arrangement expired in 1967.

In addition to the above agreements concluded during recent months, the EEC has just completed the negotiation of an agreement with Spain and begun negotiations with Malta, while a number of other countries—mainly in the Mediterranean area—have recently submitted requests for trading arrangements similar to those concluded with Morocco and Tunisia. The number of such requests bears witness to the importance, for a large number of smaller trading nations, of the EEC as a market for their exports, an importance that would inevitably increase substantially should the Common Market be enlarged through the admission of the United Kingdom and other west European countries. The countries that have, or are seeking, trade agreements with the EEC are mainly less industrialized or developing countries, often with rather similar export structures. The country pattern of the EEC's imports from these countries may therefore come to depend partly on whether or not they have trade arrangements with the EEC, and on the differing terms of these agreements. Fear has been expressed that the EEC's agreements with non-member countries threaten the principle of non-discrimination in international trade, and they have recently come under attack on these grounds from the GATT and the United States administration.[51]

Agreement has recently been reached on the terms for *Iceland's* accession to EFTA: it will become a member of the Free Trade Area on 1 March 1970. Iceland's exports of fish will benefit from the recent EFTA agreement on minimum prices for imports into the United Kingdom of frozen fish fillets in return for the restoration of duty-free entry into this market: following the large increase in the volume of these imports the United Kingdom had re-imposed the 10 per cent duty in 1968. Under the agreement the EFTA countries will grant immediately duty-free entry to Iceland's manufactured exports while Iceland will have a ten-year transitional period in which to remove its protective duties on imports of industrial products from its EFTA partners; duties will be reduced immediately by 30 per cent, to be followed by reductions of 10 per cent on 1 January 1974 and each year thereafter, the final 10 per cent being removed on 1 January 1980. Thus the longer-term advantages that Iceland should derive from membership of EFTA are from increased possibilities for diversifying its exports:[52] as the labour force is expected to grow by 2 per cent a year between 1965 and 1980 and the demand for labour for agriculture and fishing is expected to decline, such diversification is obviously crucial.

In February 1970, the Governments of Denmark, Finland, Norway and Sweden agreed on a draft treaty for the projected NORDEK economic union, which has not yet been submitted to the Parliaments concerned. The draft treaty provides for a customs union; the common external tariff, the level of which is similar to that of the EEC, is to become effective in 1974 after a transitional period of two years. However, duties on certain items are expected to be harmonized over a longer period of time and exemptions from the common external tariff are to be granted to some countries for certain products. In the field of agriculture, preferential treatment for required imports is to be accorded to supplies originating in member countries. The establishment of three funds—a general fund, an agricultural fund, and an investment fund—is foreseen. Should one or more Nordic countries join the EEC or become associated with that grouping, any other country may claim that the conditions for participation in NORDEK have changed and suspend the treaty. New negotiations would then take place on the forms of co-operation between the four countries. Iceland may join NORDEK at any time.

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[50] For the main provisions of these agreements, see *Economic Bulletin for Europe*, Vol. 21, No. 1, Part A, pp. 15-16, where developments up to September 1969 in the field of trade policies are described.

[51] See, for instance, the press reports of the Director General's opening remarks to the twenty-sixth session of the GATT and the speech of the United States representative to the EEC on 13 February in which he was reported as saying that these preferential trade agreements contained " the real risk of fatally undermining the GATT system to which the Community members nominally subscribe " (see *International Herald Tribune*, 14-15 February 1970).

One such preferential arrangement that has recently been withdrawn was the EEC's 40 per cent reduction of duties on imports of citrus fruits from Spain and Israel, introduced last July to offset partially the 80 per cent reductions granted to Tunisia and Morocco under the association agreements (see *Economic Bulletin for Europe*, Vol. 21, No. 1, Part A, p. 16). In December, however, the Community withdrew its request to GATT for a waiver to authorize this arrangement (Israel will now be granted this tariff concession under the trade agreement recently concluded with the EEC: see above).

[52] Portugal, the one present less-industrialized member of EFTA, appears to have obtained substantial economic benefits from its membership: see " The effects of EFTA on the economies of member countries ", EFTA, 1969, in which the EFTA secretariat estimate that no less than half of the substantial increase in Portugal's exports to its EFTA partners between 1959 and 1965 was due to the creation of the Free Trade Area, and conclude that " membership of EFTA has allowed Portugal to develop its industrial sectors on the basis of open export markets " (p. 105).

Developments in east-west trade policies

In east-west European trade, policy developments continued to be characterized by further liberalization measures on the western side, credit arrangements between eastern and western banks designed to finance the eastbound flow of machinery and equipment, and the conclusion of long-term bilateral trade agreements between east and west European countries. A number of long-term agreements were signed in 1969, including some by France and Italy. According to a decision adopted by the EEC Council of Ministers at Brussels in December 1969, member States may in special cases—until 31 December 1972—negotiate bilateral trade agreements with state-trading countries, but only after carrying out a procedure of prior consultation and co-ordination to ensure the progressive application of a common trade policy.

The EEC Council of Ministers also agreed on joint liberalization lists concerning imports from state-trading countries.

At present the joint lists cover only those headings which are not subject to quantitative restrictions in any member State; the national lists therefore represent a greater degree of liberalization. The joint lists are nevertheless considered a starting point for the development of common commercial policies towards east European countries. They were accompanied by an agreement on procedures enabling the EEC to follow the development of imports originating in eastern Europe and to take action whenever necessary to avoid market disturbance.[53] An extension of the joint liberalization lists is foreseen on the basis of consultations between member countries and the EEC Commission. Until 31 December 1972, every member is nevertheless authorized to take certain national safeguard measures, but after that date this possibility will be withdrawn and replaced by a single EEC procedure.

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[53] *Journal officiel des Communautés européennes — Législation*, 26 January 1970.

5. PROSPECTS FOR 1970

(i) Review by countries[54]

France

Acceleration of output growth in 1969 reflected in part the loss of production in the year before, due to the May crisis. Even then, the average growth rate of national product in the two years 1968-1969 (over 6 per cent a year) was well above the long-term trend (about 5 per cent). It should be observed that the fast growth rates shown for 1969 as a whole do not in fact represent strikingly fast growth rates *during* the year in all sectors. Thus the index of industrial production (in the absence of more comprehensive short-term statistics) rose from the second half 1968 to the second half of 1969 at a fairly steady annual rate of 6-7 per cent (although 13 per cent up on a year-to-year basis) implying a trend in GDP growth of not much over 5 per cent during the year. To some extent, too, the rise in consumers' expenditure during 1969 may have contained important once-for-all elements: first a response to the big increases in household incomes after the pay advances of 1968; second, a certain amount of anticipatory buying in anticipation of rising prices (reflected in a low level of household savings). There is some evidence that consumers' expenditure has already begun to slow down and that the propensity to save is recovering.[55] At the same time, it appears that wage-bargaining is for the time being relatively calm.

The growth of fixed investment (although the 1969 increase may be misleading as a guide to the current trend) has been rapid, stimulated by tax and credit incentives which have now been partly removed. But a substantial continuing, if slower, increase in private investment, partly offset by a decline in public sector investment, is expected to continue, stimulated by capacity shortages in some industries.

In these circumstances, the 1970 budget and the accompanying measures embodied in the *Plan du Redressement* which followed the August devaluation appear to have been meant to reinforce the weakening tendency of private domestic demand, rather than to apply a violent brake. The increase in revenue receipts after tax adjustments (some increases in indirect and corporate taxes, but some reliefs on personal income-tax, together with increases in public service tariffs) was estimated at 7½ per cent in 1970 (over the out-turn for 1969), while expenditure was projected to rise by 5½ per cent, essentially because of a 5 per cent reduction in public investment appropriations.[56] The impact on the economy will be restrictive, but less so than the impact of the budget for 1969 (see table 9). In addition to the budget, quantitative restrictions have been continued on bank lending and interest rates have been rising. After devaluation, a revised system aiming at controlling the rise in prices has also been instituted (see page 106). But the effects of devaluation on prices, including the adjustment of agricultural prices, have not yet fully worked through. At least for some months in 1970, a rise in consumer prices at a continued rate of about 5 per cent a year seems likely. It is still uncertain whether the restraining effect on the volume of consumption will be offset by the stimulus to faster pay increases in spite of slackening employment growth.[57]

When the budget was drawn up in the autumn of 1969, it was associated with a forecast of only a moderate growth in national product in 1970 (about 4 per cent). In March 1970, however, new forecasts were issued, which are more closely in accordance with current trends.[58] These new forecasts envisage a growth of real national product in 1970 of 5½ per cent (see table 1). The increase in household consumption is put at 4½ per cent and in fixed investment at 5-5½ per cent—both substantially less than in 1969. But exports of goods and services are expected to rise by 14-15 per cent—almost as much as last year, and the increase in imports of goods and services is put at 6-6½ per cent (19 per cent last year).

These forecasts rest upon a rather confident view of the trend in the current balance of payments. They appear to imply approximate equilibrium in 1970, as compared with a deficit (including the balance with the franc area) of about $1.8 billion in 1969.

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[54] The principal data used in the following country-by-country comments are the national surveys and economic forecasts, official or unofficial, listed in table 1 as the sources for the 1969 estimates (all provisional) and 1970 forecasts shown in that table.

[55] Although industrial production was increasing steadily up to the end of the year, the increase was concentrated on capital goods, while consumer-goods industries were weak.

[56] These figures, in current prices, relate to central government non-financial transactions, and are based on a 9 per cent increase in GDP at current prices—4 per cent at constant prices implying a 5 per cent over-all price increase in 1970. These budget projections were made in the autumn of 1969 and will have been superseded by the new economic forecasts quoted below.

[57] Cost-of-living sliding scales have recently been adopted in some labour contracts, especially in public enterprises, embodying a guarantee of a certain minimum increase in the purchasing power of wages. (These are not necessarily intended to be regular features in future contracts.)

[58] Only a summary is available, quoted in *Le Monde*, 27 March 1970, and is used in table 1.

The weakness of the current balance of payments in late 1968 and the greater part of 1969 can indeed be attributed in part to temporary influences on the import side. Anticipatory buying, associated with the increase in consumers' expenditure and investment, and some accumulation of stocks, brought about a rise in the volume of imports between 1967 and the first half of 1969 of about 50 per cent; industrial production rose by about 16 per cent during the same period, and the normal increase in imports for this rise in output would have been about 30-35 per cent. That this rise in imports was associated with the special features of domestic demand expansion, rather than with a serious decline in international competitiveness, is supported by the French export record. From 1967 to the first half of 1969, exports increased in volume by nearly 30 per cent, indicating no loss of market shares (in spite of the increase in relative unit labour costs, relative export prices were maintained—see table 8).[59]

The consequences of devaluation for the current balance are still uncertain but favourable results began to appear in the last quarter of 1969 (the degree of export coverage of imports rising to 91 per cent against 85 per cent in the first nine months). The official forecast of a rise in the volume of imports of goods and services in 1970, of 6 to 6½ per cent, may appear optimistic. The probability that it will be realized may depend more on the weight attached to the responsibility of temporary and speculative factors for the big import bill of 1969 than on any calculation of normal price or income elasticities. As was shown above (pp. 119-122), the direct effects on imports of changes in relative import prices, in conditions of a fairly high level of demand, can be very small. A big reduction in the *underlying* import elasticity against GDP, even with the change in relative prices, may not appear probable. This consideration is perhaps more important for 1971 than for 1970. On the export side, the projected increase is based on the assumption of a rather less favourable international conjuncture in 1970 than in 1968 or 1969. The forecast would in fact mean a rise in exports of 40 per cent over the three years 1967-1970, twice as great as the corresponding increase in national product. However, the more important figure is the increase in foreign exchange receipts. It is significant that four months after devaluation (in December 1969) the unit value of French exports, expressed in francs, had risen by more than 10 per cent, implying that export prices in terms of foreign exchange were at least maintained, while the differential profit margin on exports, relatively to domestic sales, has been substantially increased. (This affords a strong contrast with the price behaviour of British exporters in the months immediately following devaluation.)[60] Thus even if the forecast switch of real productive resources from domestic demand to exports is not attained, there is still a good prospect of a gain in foreign exchange incomes from exports at least equal to the expansion of world markets. Clearly a great deal depends on the development of industrial relations during the next few months. From a longer-term point of view, the balance-of-payments experience of 1970 will be one important test of the compatibility with international equilibrium of the growth rate of about 6 per cent in national output—well in excess of the post-war average—now under consideration as the basis for the Sixth Plan.

Western Germany

Manufacturing output rose between 1968 and 1969 by some 12 per cent in western Germany and total GNP by 8.5 per cent in volume, both rates far above any long-term trends. These high rates, however, should be seen against the experience of recession in 1966-1967; over the whole period 1965-1969, the average growth rate of GDP has been 4.6 per cent (manufacturing 6.1 per cent). The fast growth in 1968-1969 was largely achieved in conditions of internal balance: serious pressures on the labour market appeared but only in the last part of 1969. Wages and prices rose, but only moderately, until the fourth quarter. Meanwhile, the external imbalance persisted. The border tax changes at the end of 1968 failed to reduce the current surplus. After a period of floating exchange rates the Deutsche Mark was revalued in October from 4 DM per US dollar to 3.66 per US dollar.

The main factors behind growth in western Germany were the development of investment in machinery and of exports. Investment in machinery increased (compared with 1968) by almost 30 per cent in the first half-year and by 20 per cent in the second half-year. The corresponding export figures are 15 and 10 per cent. Under the pressure of steadily increasing new orders, enterprises have continuously revised their investment plans upwards. Compared with 1968 (and 1967) there was a clear change to investments intended to increase capacity and away from rationalization investment. The export performance should be seen against a small decrease in the exports to the United States. The big export increases to Belgium, France and Italy are particularly noteworthy.

The current production trends are somewhat inconclusive. Whereas total production seems to have developed rather evenly in the course of the year, there has been—for capacity reasons—a slowing down in manufacturing output. The inflow of new orders from the home market increased in the fourth quarter at about the same rate as previously, although there was a certain slowing down in the domestic demand for investment goods. The inflow of orders from abroad has shown a clear slow-down in the fourth quarter in all main branches of industry. The investment plans are still positive but the proportion of businesses forecasting increases for 1970 has been diminishing. General opinion about business opportunities as reflected in business tests has taken a less optimistic turn since the end of 1969.

The general tendency of the prospects for 1970 is fairly clear. Due to the large outstanding orders at the end of 1969, manufacturing production, investment and exports may well continue to grow rather fast for some months. But there is bound to be, for the year as a whole, a certain slow-down in the rate of growth of industrial production, if only because of shortage of capacity. The unusually high rate of growth of investment in 1969 can hardly be maintained; on the other hand, the increase in the volume of private consumption should be supported by the expected big wage increases. The revaluation should check exports and stimulate imports. Prices are likely to rise more than in 1969 because of the large cost increases.

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[59] See OECD *Economic Outlook*, December 1969, p. 25.

[60] In the four months after the United Kingdom devaluation of November 1967, export prices in sterling increased by only about 6 per cent, implying a reduction in foreign exchange prices of about 8 per cent. The differences of French from British price behaviour may be due in part to more frequent invoicing by French exporters in foreign currencies.

It is much more difficult, however, to express this general picture in precise figures and particularly to assess the prospects for internal and external balance, and to evaluate the effects of the present economic policy. The official forecast of the government[61] is presented below. Figures within brackets are secretariat estimates thought to be consistent with the current value forecasts made by the government.[62]

	Percentage change 1969-1970		
	Value	*Price*	*Volume*
Private consumption	10	3	7
Public consumption	10	(6)	(4)
Investments:			
total	13.5	(5)	(8.5)
machinery	14.5	(4)	(10.5)
buildings	12.5	(6)	(6.5)
Stockbuilding (per cent of GDP)	−0.4		
Exports goods and services	5.5	(−0.5)	(6)
Imports goods and services	10	(−1.5)	(11.5)
GDP at market prices	*9.5*	*5*	*4.5*
Internal demand	10.5	4	6.5
Current balance of goods and services	−4.6 *(billion DM)*		
Employment			0.0
Productivity			4.5

The investment forecast represents a considerable decline in the growth rate compared with 1969 for machinery, but a revival of construction activity, which was very weak, in volume terms, in 1969. The development of investment in machinery is to a large extent backed by the business forecasts, although an uncertain factor is how far the restrictive monetary policy will go, or will be allowed to go. It is clear that policy will have considerable effects on stockbuilding and on certain types of public investments.

For personal incomes, the main feature of 1969 was the big increases (of the order of 10 per cent) in hourly wage rates when new contracts were concluded in the fourth quarter of 1969. It is probably safe to assume that most of the new wage agreements in 1970 will take similar increases as a target. Furthermore, in view of the tight labour market, wage drift should continue although at a considerably lower rate than in 1969 (3-4 per cent in manufacturing). Several factors point to a reduction of the savings proportion in 1970—its high level for a number of years, and the shift in 1970 of disposable income towards groups with higher consumption propensity. Recent development of prices, and the expected development of costs in 1970, suggest a somewhat bigger increase in consumer prices than 3 per cent. But in the light of all considerations a slightly bigger increase in the volume of private consumption than the officially projected 7 per cent seems rather probable.

The development of foreign trade after the revaluation is extremely difficult to assess. The effective rate of revaluation can be estimated at some 7.5 per cent[63] which—everything else being unchanged—means that the price level of export goods from western Germany measured in foreign currencies would increase by 7.5 per cent whereas the import price level of foreign goods in western Germany would fall at a corresponding rate (measured in Deutsche Mark). However, the 4 per cent tax on exports introduced at the end of 1968 was removed in connexion with the revaluation. The experience of this " quasi revaluation " at the end of 1968—which also included an import subsidy—shows that foreign sellers increased their prices in order to share the gains. In the extreme case, in which both exporters in western Germany and exporters abroad to western Germany allowed these changes to take full effect on prices, we would get the following net changes in the price levels of foreign trade as a result of the revaluation itself:

Percentage changes in prices after revaluation

	Seen from outside western Germany (in $)	*Seen from inside western Germany (in DM)*
Price level of exports from western Germany	+ 3.5	− 4
Price level of imports into western Germany	+ 4.5	− 3

(It has been assumed that the incidence of the export tax at the beginning of 1969 was 4 per cent, and that import prices received by the foreign supplier were increased by 3 per cent as a result of the introduction of the import subsidy.)

The relevant figures for estimating the effects of price elasticities on *demand* are the +3.5 (for foreign demand) and the −3 (for demand inside western Germany).

An indication of one possible outcome is the fact that export prices (measured in DM) had not fallen at all by December 1969, whereas import prices (also measured in DM) had fallen by 2.5 per cent. Should these tendencies be maintained, it would—as far as *imports* are concerned—mean that the price development would come closer to the theoretical value in the table above than to what appears to be implied by the official forecast. If such a fall in import prices were carried through to the final consumers, the volume of imports should increase more than is at present expected. As far as *exports* are concerned the most recent price tendencies signify an outcome closer to the development implied in the official forecast than to the theoretical value in the table above. Even then, the export volume forecast seems conservative: the short-term price-elasticity for exports from western Germany is remarkably small. The export increase in 1969 was accompanied by an increase of the export price index by 6.5 per cent in the course of 1969. However, the impact on prices later in the year of other cost increases is also in the balance.

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[61] *Jahreswirtschaftsbericht 1970 der Bundesregierung* (January 1970).

[62] The export price forecast is made by the *Sachverständigenrat*; the price forecasts for public consumption and for investment are those made by the *Deutsches Institut für Wirtschaftsforschung* (*DIW Wochenbericht*, 22 January 1970).

[63] See *Jahresgutachten 1969/1970 des Sachverständigenrates. Im Sog des Booms*, para. 175.

The range of possible capacity increases in 1970 is probably between 4 and 6 per cent. The lower figure probably implies no further increase in employment and a productivity increase of 4 per cent, i.e. 2 percentage points lower than the productivity increase achieved in the second half of 1969. The higher figure might imply an employment increase by perhaps half a percentage point and a productivity increase about half a point lower than in the second half of 1969. In favour of a higher alternative are the effects on production capacity of the current investment boom, the proved flexibility of the labour market, especially as regards immigration, and signs of some labour hoarding in the late part of 1969 (a fall in the average hours worked was accompanied by a steady increase in the number of persons employed).

The aim of economic policy for the first part of 1970 is fairly clear. Even without further restrictive measures, monetary policy is already exercising a strong pressure in a situation of already restricted liquidity. Fiscal policy is aimed at restraining the expansion of demand in the first part of the year, while building up financial reserves that could be spent in the latter part of the year, if necessary. From the considerations above about the development of capacity and demand, the official forecast for the expansion would appear rather low. A cautious evaluation of the prospects for 1970 would be that a realization of the official forecasts would require a more restrictive policy than is now envisaged.

A faster increase in output and demand than in the official forecasts might mean further pressures on the price level also. But even at a lower rate of expansion it appears doubtful that the objective of an increase of only 3 per cent in the level of consumer prices and of 4 per cent on total internal demand can be realized, because of the lagged effects of the cost increases that have already occurred or are in process. A faster increase in prices than is at present envisaged does not necessarily mean that demand is increasing faster than available supply capacity (including imports). There is a certain risk—according to some views—that a failure to keep down the rate of price increase could provoke further monetary or budgetary restriction. In an unfavourable constellation of circumstances, this could repeat the development in 1967 when expansion was brought to a standstill.

The most unfavourable development—especially from the point of view of other countries in western Europe—would be an unnecessarily severe slowdown in growth combined with continued price increases resulting from lagged cost-inflation. Should this happen in a situation where monetary policy remained restrictive (for example, in the interests of the external capital balance), it might be difficult to bring into play the reserves for re-expansion. The important problem for policy in 1970 may therefore be to determine how much expansion of demand in excess of the forecasts—which must be regarded to some extent as " targets "—can be tolerated, even at the cost of price inflation.

Italy

In Italy, the economic results of 1969 were heavily affected by the waves of strikes which started early in September and continued to the end of the year. The strikes—concentrated in the manufacturing and construction sectors—were concerned with the renewals of wage contracts for the period 1970 to 1972 inclusive (the expiring contracts covered the three-year period 1967 to 1969). The pay increases agreed upon appear to be within the capacity of the Italian economy, but the production losses have been severe. Industrial production in 1969 as a whole was up by hardly more than 3 per cent against 1968, although until August the advance on the corresponding period of 1968 was about 8 per cent. The estimates for GNP prepared in September, on the basis of information then available, are obsolete (although it is likely that the downward revision will be smaller for gross national product than for industrial production, owing to a probable running down of stocks of finished products in the period of strikes, and to increased imports). Provisional estimates now put the growth rate of real GDP in 1969 as a whole at around 5 per cent (instead of nearly 7 per cent estimated in September).

Wholesale prices went up by about 7 per cent from the end of 1968 to the end of 1969, especially because of a rise in imported materials and in foodstuffs (both imported and domestically produced). Prices for industrial products also rose by about 6 per cent, but consumer prices (by October) had risen only by 4 per cent. Wage rates and hourly earnings in industry rose by about 9 per cent. As far as can be judged, there has been very little wage drift. Commodity imports rose more than commodity exports. Imports were boosted by stockbuilding in the first months of the year, and by the production gap in the later months. Yet (see table 14) the current balance closed with a considerable surplus in 1969 (about 2 per cent of gross domestic product). Thus, in 1969 as in previous years, the Italian economy produced more than it consumed.

The wage increases agreed upon at the end of the year have to be seen against the background of some slack in the economy, and of the continuing strong competitiveness of Italian exports. The wage contracts—effective from 1 January 1970—apply to about five million wage- and salary-earners and negotiations are going on for other categories of workers (textiles, transport, etc.). The wage increases so far agreed upon are of the order of 25-30 per cent per hour for the three-year period 1970 to 1972, including the increased charges for social security contributions and allowing for shortening of working hours. The major part of the increases will actually materialize in 1970 when wage costs per hour worked are expected to go up by about 15 per cent in comparison with 1969. In view of the current wage increases in a number of other countries and of the high degree of competitiveness of Italian exports, and of the only modest wage increases which have characterized the Italian economy in recent years, the new wage levels should not drastically reduce the Italian export capacity. But this optimistic evaluation has to be duly qualified.

First, cost-of-living sliding scales are still in general use in Italy, and can contribute to a wage-price spiral. For the first quarter of 1970, the sliding scale has already moved up by 1½ per cent to meet price increases in the last months of 1969. Secondly, Italian fiscal policy has proved to be rather rigid as an anti-cyclical weapon, although the State budget for 1970 is intended to be more expansionary than that for 1969 (see page 111 above); the burden of demand management has fallen essentially on monetary policy (as in 1963-1964). At present, enterprises hope for a strong output recovery in 1970. This is, in fact, an essential prerequisite for the expected increase both in labour productivity and in gross profits. But the new wage levels—and the output lost with the strikes—have created a liquidity problem for most industrial enterprises which can be overcome only with a more liberal credit policy. Short-term management of the economy would present a less intractable problem if fiscal policy could be more flexible. Thirdly, the achievement of a new domestic equilibrium would be made more difficult by a continuation of capital flight at recent rates. Capital flights are the consequence in part of political and business uncertainties, and in part of interest rates differentials. Recently, some steps have been taken to exert some indirect form of control on capital exports, and interest rates on new Italian bonds have been increased; but the effect of these modest measures is still uncertain.

If some workable solution can be found for most of these problems, resumption of normal output growth, together with making good the losses of late 1969, seems feasible. So far, no quantitative forecasts have been prepared by the Italian authorities but a growth for gross domestic product of about 7-8 per cent can well be considered as a realistic goal. On the basis of past short-term relationships, the growth of manufacturing output could then be estimated at 14-15 per cent. An evaluation of imports and exports appears particularly difficult in view of the special factors that have affected Italian foreign trade in 1969.[64] Increases might be suggested of imports by about 20 per cent (owing to restocking and to a certain spillover of demand into imports), and of exports by 15 per cent (this would be slightly below the long-term trend plus some allowance for recouping last year's strike losses). On these assumptions, the trade balance *(f.o.b.-f.o.b.)* would be virtually in equilibrium in 1970 and the current balance (allowing for the normal surplus on invisibles) would close with a surplus of about $1½ billion (about $2½ billion in 1969.)

United Kingdom

The main feature of 1969 was the turn-round of the current balance of payments from deficit into surplus, accompanying a policy-induced slow-down in the rate of growth. The turn-round in the current balance was equivalent to 1½ per cent of the GNP. The slow-down in growth of real GNP was from just over 3 per cent in 1968 to just under 2 per cent in 1969, but in growth of domestic demand from well over 2 per cent to only about half of one per cent. The out-turn for 1969 was in these respects very close to the policy projections for the year issued by the Government in connexion with the budget of April 1969. The tax increases,[65] and the temporary check to increasing public expenditure, seem to have played the largest part in stabilizing domestic demand: neither private nor public consumption increased appreciably in real terms; total fixed investment was flat (but private investment continued to rise while public investment and investment in dwellings were reduced). Almost all of the 4 per cent rise of manufacturing output can be accounted for by the 12 per cent increase in the volume of manufactured exports.

The components of the improvement in the current balance were approximately:

	£ million in current prices, change from 1968 to 1969 (improvement +)
Exports	+785 (increase of 12 per cent)
Imports	−300 (increase of 4 per cent)
Services and transfers (net) . .	+ 40
Property income (net)	+150
TOTAL	+675 (1968 − £310 million; 1969 + £365 million)

The big improvement in the current surplus came in the second half of 1969, when the surplus reached an annual rate of about £550 million (over $1.3 billion).

There was a small net inflow of long-term capital in 1969, so that the basic balance in the year approached £400 million. The surplus has been devoted to repayment of the short- and medium-term debts to central banks and the IMF, acquired in the recent periods of sterling crises, rather than to restoring the reserves. Indeed it appears that—especially since last autumn—debt repayments have greatly exceeded the basic balance, while short-term funds have been flowing into London again on a large scale (an inflow which prompted the move towards some cautious reduction in Bank Rate).

At the same time, fiscal policy has resulted in a change in the public sector's financial position from net borrowing (over £300 million in 1968-1969) to net debt repayment (probably over £300 million in 1969-1970). This facilitated the slowing down of the rate of domestic credit expansion. Although bank advances in the private sector rose during 1969 by 15 per cent, the whole increase took place in the first part of the year.

Against these considerable improvements in the balance of real resources must be set the continuing increase in domestic costs of production. The increase in average wages and salaries in 1969 (8-9 per cent) was certainly no greater than that in most competing countries (see pages 100 to 104) but it was considerably greater in relation to the small rise in output. Moreover, the scale of pay increases tended to rise in the course of the year. The attempts to maintain control of pay increases by an agreed incomes policy have in effect broken down—at least for the time being—against the resistance of some unions and of large groups of workers.[66] The machinery for official inquiries and recommendations, with government reserve powers to postpone increases, has been preserved, with modifications, but it has become increasingly difficult to use the machinery with any reasonable hope of enforcing the general principles for which it was designed. It is proposed to maintain for 1970 the machinery of incomes policy, with a further modification of government sanctions; and the "guidelines" for pay negotiations are further softened to a statement that "most wage and salary settlements need to fall in the range of 2½ to 4½ per cent increase in a year" (exceptions similar to those prevailing in the past remain).[67] As hitherto interpreted, this fairly flexible requirement could be consistent with a rise in actual average pay of 5 or 6 per cent.

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[64] The long-term elasticity of Italian imports in respect of gross domestic product is about 2.

[65] Including also the delayed effects of tax increases in late 1968.

With no change in fiscal or monetary policy, the prospect for 1970 is a slight lift in the growth rate; the National Institute suggests just under 3 per cent for the average increase in GDP from 1969 to 1970.[68] This is not very different from the long-term growth rate (about 3 per cent, 1953-1967) but probably less than productive potential would allow in view of the slow average growth rate in recent years (2.2 per cent 1965-1969). An additional stimulus is expected in 1970 from domestic demand. Statements of investment intentions suggest a certain slowing down—the exact amount is disputed—in private investment, but the decline in housing investment should be checked and the rise in public investment, especially in the nationalized industries, may be resumed after last year's decline. Private consumption should also begin to increase again in volume: how much, depends on how quickly recent pay increases pass into prices. In total, domestic demand might rise by between 2 or 3 per cent. Some acceleration in growth of imports would follow. At the same time, the relatively fast growth of exports is commonly expected to slow down, mainly because of the expected slowing down in the growth of world markets. The result would still be an annual surplus on the balance of payments in 1970, tentatively put by the National Institute at £825 million ($2 billion), which is about 2 per cent of the gross national product.[69] But even if there were no further improvement over the estimated results for the second half of 1969 (seasonally adjusted) the current surplus in 1970 would be $1.3 billion. The latter figure would be adequate—if it could be maintained—to fulfil the remaining requirements for scheduled official debt repayments.

It is generally recognized that the recent improvement in the current balance owes much to the deliberate restraint of domestic claims on real resources during an upsurge in world demand, and particularly in European demand. In particular, recent export performance has probably been helped by the longer delays in deliveries from competitors. At the same time, there is by now some evidence of an improvement in the British export competitiveness. Since devaluation, the long decline in the British share of world trade in manufactures appears to have been checked. The United Kingdom's relative export prices for manufactures, in dollar terms, have retained much of the devaluation advantage;[70] and although unit labour costs in manufacturing have increased more than in most competing countries in the past two years, they remain less than before devaluation when expressed in dollars. Meanwhile, export prices have risen more than domestic prices of industrial products, so that producers have retained much of the differential profit margin on exports secured by devaluation (see table 8). To these advantages, which may well be temporary, can be added an important and more long-lasting advance in rationalization of industry and technological adaptation; it cannot be proved that the advance has been greater than in competing countries, but many would hold that there has been at least a significant relative improvement in many branches. It remains to be seen how far this will be expressed in a general expansion in industrial investment for modernization of productive equipment.

In these circumstances, and provided that the order of magnitude if not the exact figuring of the forecasts quoted is accepted, it is long-term considerations, rather than the situation in 1970, that should determine policy. Maintenance of an adequate current balance of payments in 1970 itself will depend more on the course of external demand than on variations of a percentage point or so in the rate of increase of domestic expenditure (allowing for time-lags and for present under-utilization of capacity). The central issue is what longer-term rate of growth and, perhaps more important, what pattern of growth is most likely to be consistent with preserving the improved external balance. If conditions in the world economy remain favourable—and particularly if the trend continues towards a faster growth of international trade in relation to output—it is possible that the improvement in competitiveness has been enough to allow an underlying growth rate for gross national product significantly in excess of the average 3 per cent of the past 15 years.

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[66] The official ceiling for pay increases in 1969 was 3½ per cent, subject to special exceptions for low paid workers, productivity agreements, etc. Most basic pay settlements, at least in early 1969, could, with some generosity, be regarded as conforming to the "norms" but many were clearly above it and wage drift added to the increase in actual earnings.

[67] Cmnd. 4237 of December 1969. Another recent development in incomes policy is the proposal to introduce this year legislation prohibiting discrimination between men's and women's pay for the same or broadly similar work, to come into full effect by the end of 1975. The direct effect is estimated at an increase in the total wage and salary bill of 3½ per cent. (See *Employment and Productivity Gazette*, December 1969.)

[68] *National Institute Economic Review*, February 1970. The Government's forecast and budget for 1970/71 were presented after going to press. (*Financial Statement and Budget Report 1970-71*, 14 April 1970.) Tax reductions (mainly on income tax) were announced, which are expected to raise growth of real domestic product in 1970 from about 3 per cent (as in National Institute pre-budget forecast quoted above) to about 3½ per cent.

[69] Previous record surpluses on current account were $840 million in 1950 and $1 billion in 1958. The latest OECD forecast of the United Kingdom's current surplus in 1970 is $1.2 billion (OECD *Economic Outlook*, December 1969).

[70] Comparing export unit values for manufactures, in dollars, fourth quarter 1969 with the first three quarters of 1967, the United Kingdom shows a fall of 3 per cent while the total for the 11 principal exporting countries shows a rise of 4 per cent.

The smaller economies

The growth of manufacturing output (11 per cent) and the growth of total GDP (6.5) in 1969 in *Austria* were well above the medium-term trend. Growth was stimulated by the strong export increase and by a revival of investments in machinery after a decline in 1967-1968. But private consumption increased only by some 3 per cent, slightly less than in 1968 and considerably less than the expected growth at the beginning of the year. This development was due less to the 10 per cent surcharge imposed at the beginning of 1969 on wages and other incomes than, apparently, to a marked increase in the savings ratio on the part of of householders. A current surplus was obtained on the balance of payments—the first since 1964.

The prospects for 1970 are rather favourable. The growth rate of exports—although helped by the revaluation in western Germany—will probably fall in comparison with 1969 but internal demand should probably increase at a somewhat higher rate than in 1969. No further acceleration in disposable income is expected after the comparatively fast increases in hourly wage rates at the end of 1969. A tendency towards wage-drift in industry will probably be counteracted by smaller increases than in 1969 in public sector pay and in transfer incomes. The average level of hourly wage rates is expected to increase by 7 per cent and wage-drift (including overtime) by 2.5 per cent. The total wage and salary bill is expected to increase by 8.5 to 9 per cent over 1970. A considerable reduction in the savings ratio, after the small consumption increases in recent years, should result in an increase in real private consumption by perhaps 5 per cent in 1970. Investment in machinery is expected to continue to grow fast and there should be a further revival in building activity.

Capacity—especially labour resources—is highly utilized at present. Since a reduction in man-hours worked by about 1 per cent is expected in 1970 (because of reductions in working hours), productivity must increase by 6 per cent in order to realize the forecast of a GDP-increase of 5 per cent in 1970. It is believed that the necessary increases can be reached within the goods-producing sectors, whereas some doubts can be expressed about the service sectors. The impact of total public finance is at present expected to be restrictive (according to the estimates in table 9, a more marked shift than in most countries) mainly due to a planned slow-down in current expenditure. Certain measures to facilitate imports have been taken: tariffs have been cut and quotas extended.

With a 10 per cent increase in industrial production, and 6 or 7 per cent in real GDP, *Belgium* experienced in 1969 a faster rate of expansion than in any year except 1964 (long-term trend for GDP 3.7 per cent). The big reasons were the 25 per cent rise in UEBL exports widely spread over the major markets (except Netherlands and United Kingdom) and the equally unexpected rise in industrial investment. The current balance-of-payments surplus increased and together with the increasing inflow of private capital gave Belgium the biggest increase in reserves of any west European country.

Rising output and productivity, with no more than an average rise in pay, kept down unit labour costs in industry; as industrial producer prices were rising, profits and self-financing possibilities were increased. Early in the year, the anti-cyclical increases planned in public expenditure—thought necessary at a time when the expansionary forces seemed weak—were cut, and in November policy went into reverse. Present expectations are that some weakening in export markets will bring about some slackening of demand this year. However, the pressure of private investment demand is still very strong (although public investment is likely to rise less than last year), and the rise in output has not yet slackened. At the same time, the potential for further output expansion is probably limited by capacity and labour shortages.

A growth rate of GDP of 4½ per cent now appears to be expected for 1970; this would probably mean a continued pressure on wages and prices [71]—increases in labour costs are not likely to continue to be absorbed—and perhaps some weakening in the current balance. The budget proposals for 1970 announced in September did not envisage appreciable fiscal restraint but additional measures were taken in November when the strength of the boom was more fully realized (more severe hire purchase terms, more selective support for private investment, and selective reductions of tax rebates for exports). Quantitative restrictions on bank credit are to be continued, at least for the first half of 1970; these allow about the same rate of credit expansion as the limits for 1969 (which appear to have been fully used).

Denmark experienced a good year in 1969. Real GNP increased by 7 per cent and industrial production probably by about 12 per cent. The main stimulus to the upswing was domestic demand, especially consumption which also rose by 7 per cent (about the biggest increase in 1969 in any industrial western country), and by over 10 per cent in current prices. In addition there was a major expansion (estimated at about 30 per cent) in dwelling construction, following the relaxing of tight control on housing credits in September 1968. The major factor in the exceptional increase in consumers' expenditure was the impending change-over to a pay-as-you-earn system of income-tax to come into effect in 1970; in 1969, consumers benefited temporarily from tax-free increments of income. This is one reason for the unusual increase (2-3 per cent) in the labour force (and its expected decline in 1970); a large number of married women took jobs, many of them only temporarily. In addition, the new two-year general wage agreement of March 1969 provided only for a 3 per cent increase in basic pay in 1969 (with another 4 per cent in 1970), but there was probably wage-drift of about 3-4 per cent and further increases resulting from cost-of-living sliding scales. Both industrial investment and public investment rose steeply. Although exports rose over 10 per cent in volume, the boom brought a still larger rise in imports and an increase in the current balance-of-payments deficit.

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[71] A contributory factor is the postponement until 1971 of the introduction of the value added tax. Anticipatory buying on this account may start again late in 1970 (it was a factor in the increase of demand last year before postponement was announced).

Measures were introduced in May 1969 to control the increase in demand (increases in indirect taxes and deferment of some public expenditure); in spite of them, the economy continued to grow rapidly in the second half of the year.

The impact of public finances will be more restrictive in 1970, mainly because the introduction of the pay-as-you-earn system will have the reverse effect of that in 1969. Revenue from direct taxes is expected to increase by 25-30 per cent, while expenditure is planned to rise at 6 or 7 per cent, as before. Very little increase in real consumption is forecast and investment, particularly in housing, is expected to slacken. Consequently the rise in imports should slow down and, it is hoped, should be overtaken by a continued rise in exports (especially industrial exports) leading to a reduction in the current deficit. The consequent increase in real GNP in 1970 is put at 3-4 per cent (a little below the 1953-1967 trend of 4½ per cent).

In *Finland*, after the exceptional expansion of gross national product in 1969 (8 per cent), a certain slowing down is forecast for 1970; but the expected growth (6 per cent) still remains considerably above the post-war trend rate (4.8 per cent). All the major components of final demand (except public consumption) should slow down somewhat, particularly investment in dwellings and non-residential construction. Recent government efforts resulted, in 1969, in a 16 per cent increase of investment in dwellings following a number of years of stagnating or declining activity; in 1970, it is expected to increase by a further 8 per cent. Investment in machinery and transport equipment, by contrast, should increase no less than in 1969 (by about one fourth). It is expected that in 1970, as in 1969, investment will grow in the private sector but not in the public sector. Both imports and exports are expected to increase more than the long-term trend but imports should expand, again, slightly more than exports and the current balance will probably show a small deficit.

Recent wage agreements should limit the wage increase in 1970 to about 5 per cent—that is, to a rate not higher than the expected increase in labour productivity. But in a number of sectors production is likely to be hampered by bottlenecks and shortage of capacity.

The *Icelandic* economy, which was seriously damaged by the collapse of herring fishing in 1967 and 1968, recovered somewhat in 1969 due to an improvement in exports. The continuing poor herring-catch was to some extent counterbalanced by good catches of other fish, but above all by improved market conditions abroad. (The Icelandic krona has been devalued by 51 per cent since November 1967, in two stages.) Internal demand, however, continued to fall again in 1969, with increases only in public consumption and with a halt in the fall of stock-building.

The prospects for 1970 are difficult to evaluate because of the impossibility of forecasting the fish catches; in addition, the effect of Iceland's membership of EFTA (see page 128 above) might be substantial. There should be, however, a revival in internal demand. Fixed investment, particularly residential construction, is expected to increase as a result of policy measures to keep up employment in the building sector. An increase in private consumption is also expected. The size of the upswing in consumption will, however, depend on the development of wages: the stabilization agreement after the devaluation in November 1968 ends in May 1970. Wages may be expected to rise enough to stimulate consumption, particularly since private disposable income will not be much restricted by the Government's budget.[72]

In *Ireland*, 1969 was a second year of rather fast expansion. This was in spite of budgetary and credit restraints [73] introduced in 1968 when it was realized that the trade deficit was becoming uncomfortably large after devaluation because of fast expansion of domestic demand, especially in investment. It is true that in 1969 as a whole real GDP rose by only about 4 per cent and industrial production increased by about 8 per cent. But these figures understate the underlying trend. A long strike of about 1,500 maintenance workers affected most industries and out back industrial production in the first quarter by about 5 per cent. Apart from this interruption, the trend during most of 1969 was probably an expansion of GDP by nearer 5 than 4 per cent. Business tests suggest that this rate was still continuing towards the end of the year.

Meanwhile, pay increases gathered strength. New settlements, not all completed yet, have resulted in increases of around 15 per cent (many of them phased over more than a year). Unit labour costs in industry (even discounting the direct effects of the interruption to output) are likely to have risen by between 5 and 10 per cent last year. But since there was little increase in unit labour costs in 1968, some of the gain of devaluation, in terms of comparative costs in dollars, still remain.

Forecasts for 1970 suggest a certain relaxation in the pace of demand expansion, even without any change in tax [74] or credit policy. In particular, there is evidence from business tests that the investment increase is slowing down —one reason being a squeeze on company liquidity resulting from the labour cost increases. Since the round of pay increases is still in progress [75] the expansion of household incomes should continue, but consumer prices (whose rise in 1969 was largely due to indirect tax increases) should rise less. The result may be some acceleration of the growth of real consumption. But with a slower rise in investment, imports should not increase so much as in the last two years while there should be better opportunities for taking advantage of the increasing competitiveness in manufactured exports. No large change in the size of the current account deficit appears to be in sight. The rise in real GNP in 1970 may in these circumstances be about 4½ per cent, a little greater than in 1969.

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[72] See OECD, *Economic Survey: Iceland*, January 1970.

[73] The Central Bank has limited powers to control the operations of the " non-associated " banks which are important channels for the inflow of foreign capital for, among other purposes, the financing of consumer credit.

[74] The budget for 1970/71 was announced in April.

[75] Efforts are being made by the Government to moderate the rate of pay increases. Attempts to impose a voluntary limit of 7 per cent have not been accepted. The Government has powers to control price increases, and may use them if pay increases above this " norm " are passed on into prices.

The 1960s have seen a considerable transformation of the Irish economy, with a regular inflow of foreign capital helped by important tax incentives, and a check to the outflow of manpower. The accompanying rise in average pay, to near the United Kingdom level, may be regarded as a part of the transformation process. So long as the inflow of foreign capital continues—and it can no longer benefit extensively from cheap labour—a current deficit on the balance of payments can be supported.

Total output increased in *the Netherlands* by 5 per cent in volume in 1969 and industrial output by over 12 per cent. The latter figure is above the long-term trend, whereas the GNP-growth is close to it. The special features of development in 1969 were that stockbuilding and exports made the major contribution to growth. Domestic demand increased by only a little over 4 per cent (excluding stocks by only 2½ per cent).

Private consumption is now estimated to have increased by 3½ per cent in 1969. This moderate increase should be seen against the background of a rather large increase in nominal disposable incomes; the increase in consumer prices (7 per cent, only partly explained by the introduction of the value added tax), offset most of the rise in money incomes. Fixed investments came to a standstill—there was even a reduction in the volume of residential construction. The export performance on the other hand was impressive: exports of goods increased by 17 per cent in volume and total exports of goods and services by 16 per cent. This was more than the increase in the (weighted) demand on Netherlands exports markets. The gain in the market share can be explained by the mounting importance of the export of natural gas and by the weak domestic demand. Nevertheless, imports increased by 14 per cent in volume, to some extent as the result of the high rate of stockbuilding.

The prospects for 1970 include a moderate expansion of private investment. Public investment is expected to remain at its 1969 level. In contrast to 1969, private consumption is expected to increase quite fast in 1970. The consumption forecast is based upon an expected increase in average wages and salaries by 8 per cent (10½ per cent in 1969). Because of the smaller effect of tax progressiveness, and of a reduction in direct taxes, average after-tax earnings should rise by 7 per cent (8 per cent in 1969). The important difference as compared with 1969, however, lies in the expected development of prices. In 1970 the increase in consumer prices is estimated to be only 4 per cent. Real private consumption would thus increase by 5½ per cent. Fiscal policy is aimed at being moderately restrictive: there will be an increase in certain indirect taxes and in the standard rate of the value added tax. On the other hand, compensation for the effects of tax progressiveness on nominal income increases will be given. The growth rates of foreign trade are expected to fall off considerably in 1970, exports to 9.5 per cent (an expected slow-down in world demand) and imports to 7.5 per cent (with reduced stockbuilding). Total GNP is estimated to grow by some 4.5 per cent, in volume. This incorporates a somewhat slower productivity growth than in 1969.

The main problem for economic policy in the Netherlands in 1970 will probably be the development of costs and prices. It is admitted that the price forecast for 1970 may be too low. The situation is complicated by sharp differences of opinion about the new "wage law " recently introduced, under which the Government retains power to reject already negotiated wage agreements of which it disapproves. It is true that this sanction is declared to be for use only in cases of extreme necessity, but the need for it is strongly disputed by some important labour market organizations.

Total GNP in *Norway* increased by 3.9 per cent in volume between 1968 and 1969. The rate of growth was, however, markedly affected by the unfavourable harvest, poor fish catches and the reaction from the shipping-boom following the Suez crisis. Disregarding such effects, real GNP rose by between 5 and 6 per cent, well above the longer-term trend. Manufacturing output increased by over 6 per cent, also above the longer-term trend.

Fixed investment shows a continued fall between 1968 and 1969 as a whole. This is the result of the decline in investment in shipping, particularly in the first part of the year. Other fixed investment had a more positive development in the course of the year and contributed, including residential construction, to the upswing in 1969. This was backed up by a good development of exports: excluding shipping services and export of old ships the volume increase is estimated to be 10 per cent, about the same as in 1968 (including these items the increase is only 5 per cent). But the most important contribution to the growth of expenditure came from the development of private consumption, which increased by 6 per cent in volume. Much of this was anticipatory buying—above all of new cars (a rise of 50 per cent) and consumer durables—in advance of the price increases expected to follow the tax reform of January 1970, referred to below. The lively consumer demand was largely fed by imports. Imports of goods, excluding ships, rose by 13 per cent (including ships by only 5 per cent); imports of consumer goods (first nine months) rose by more than 20 per cent. Meanwhile Norwegian industrial production of consumer goods for the home market increased by only 3 per cent (although stocks were also run down) but the major increase in industrial production was an 8 per cent rise in production for export.

The developments during 1969 meant a gradually increasing utilization of available capacity. The number of persons employed increased by about 2.5 per cent during the course of the year. Consumer prices rose rather moderately, by 3.3 per cent (year-on-year). For the second consecutive year, the current balance of payments was, exceptionally, in surplus, partly due to the low imports of new ships.

The prospects for 1970 are heavily influenced by the development of public finance, due to the reform of the tax system which took place at the beginning of this year. There will be a considerable shift towards indirect taxation. The current sales tax (about 13½ per cent) has been replaced by a value added tax of 20 per cent. This is in itself expected to increase consumer prices on average by 5.8 per cent. To compensate, State income-tax will be reduced.[76] Important increases in transfers to households are also expected (see table 9). There are reasons to expect a clearly expansionary net effect from the 1970 budget. Private consumption is expected to rise by about 4 per cent in volume. The investment boom is expected to get into full swing: a total increase of more than 11 per cent is expected, with a stress on investment in machinery and shipping. Export growth is expected to be kept up rather well (although not when weak exports of ships are included). Imports (in particular when import of ships is included) are expected to accelerate considerably in 1970 and, in spite of an expected improvement of export prices, the current balance of payments is forecast to return into the normal deficit. The increase in real GNP at 4.7 per cent should be somewhat greater than that of last year.

Total output in *Sweden* is estimated to have increased by some 5 per cent in real terms in 1969 and manufacturing output by about 7 per cent. The expansionary elements as compared with 1968 were mainly stockbuilding and fixed investment, whereas consumption and the external balance did not contribute to the acceleration. Capacity restrictions had an increasingly negative influence on growth in the course of the year. Productivity (per hour) increased by between 4.5 and 5 per cent. The increase in consumer prices stayed at 2.7 per cent. The development of the external balance was unfavourable. Although exports increased by about 12 per cent and terms of trade developed favourably, the deficit on the trade balance was somewhat higher than in 1968 (imports increased by 13 per cent in volume). Through a deterioration in the balance of services and transfers the deficit on the current balance of payments increased from about 0.5 to about 1.1 billion kronor.

The official forecast for 1970 envisages a growth of total GDP by not quite 4½ per cent in volume.[76a] This forecast incorporates a positive contribution from the external balance and a continued expansion of investment. The growth rate of consumption is expected to fall again in 1970—increasing by 3½ per cent in volume with a growth in nominal disposable income of 6½ per cent and in consumer prices of about 3½ per cent. Exports are expected to rise by 8½ per cent and imports by 7½ per cent in volume. Together with an expected continued improvement of the terms of trade, this development would mean a cut in the deficit on the current balance of payments from 1.1 to about 0.7 billion kronor.

The most difficult prospects to assess seem to be those for investments and for exports. The investment forecast is built on business surveys, as usual corrected upwards with standard factor. The relatively important swing in industrial investment (particularly building), from a rise of 6 per cent in 1969 to one of 10½ per cent in 1970, might be impeded by the present rather hard credit policy, which will probably remain tight in the interest of the capital balance. On the other hand, a certain space will be created by an expected slow-down in all types of public investments.

The export forecast implies a slight gain in Swedish market shares in 1970, contrary to recent trends. It is, in particular, exports of engineering industry and the very dynamic group of " miscellaneous " goods that would expand more than normal. Such a development is not impossible given, for example, the effects of the revaluation in western Germany.

The impact of general government finance on the rest of the economy contributed to growth in total GNP, according to Swedish estimates, more than 1 percentage point in 1969. In 1970 the contribution is expected to be smaller, but still positive (about 0.5 per cent). In both of these years, however, the impact of the central government is estimated to have been restrictive, approximately to an extent of about 0.5 per cent of GNP. In view of the limited labour resources in Sweden, a reform of the system of taxation of married couples, designed to encourage the entry of married women into the labour market, is expected to come into effect in 1971. As a prelude to this reform, certain indirect taxes will be increased in 1970.

In *Switzerland*, only a modest slowing down in the growth rate of gross national product is envisaged for 1970 (4 per cent as against 4.7 per cent in 1969); but both fixed investment and private consumption should accelerate. The expected slowing down in gross national product derives entirely from an assumed deceleration in exports (from 12 per cent in 1969 to 9 per cent in 1970).

The Federal budget for 1970 has been designed to play a moderately restrictive role; but recently other restrictive measures have been approved by the Federal Government (anticipation of tariff reductions under the Kennedy Round, reduction in export credit guarantee, restrictions on consumer credit) and the construction programme of the Federal Government may be scaled down. A bill has also been submitted by the Government to the Chambers proposing the introduction of a temporary export deposit scheme, amounting to 5 per cent of the value of exports. The policy measures adopted or envisaged by the Federal Government, whose powers of short-term demand management are very limited, aim at cooling down both foreign and domestic demand, in an attempt to avoid pressures on the price level and manpower resources. Wage and price increases have been so far very modest in Switzerland, especially in comparison with its major trading partners. In 1969, unit labour costs probably declined in manufacturing, and gross profits rose. A somewhat more rapid increase in wages and prices appears likely in 1970.

The extensive holdings of short-term Euro-currency investments by the Swiss commercial banks have made it impracticable for the national Bank to exercise effective monetary control by open market policy or by minimum reserve requirements. The National Bank has, however, reached agreements with the commercial banks to exercise some restriction on the expansion of credit. The results have so far been modest, but may become more effective in 1970

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[76] About 40 per cent of State income-tax payers will be relieved of tax; the steep progressiveness of tax rates for the highest incomes will be reduced.

[76a] In the revised national budget, the GNP forecast for 1970 has been reduced to 3.5 per cent

(ii) General review of short-term prospects

(see table 1 for the data underlying this discussion)

Most of the national forecasts for 1970 envisage a slowing-down of output growth; only for Ireland, Italy, Norway and the United Kingdom—countries where growth was held back for various reasons in 1969—is some acceleration expected (see table 1). It may be noted that the growth rates now forecast for 1970 are generally rather close to the long-term trend rates (around one percentage point or so faster than the trend for Belgium, Finland, Ireland, Italy, but a point slower for Denmark and western Germany).[77] It may be observed that the national growth forecasts made a year ago for many countries were also rather close to the long-term trends (France being the most conspicuous exception).[78] Very broadly, it appears that last year's expectations of a return to " normal " growth rates have been postponed to 1970.

Some of the general implications of the national forecasts, especially for international trade flows, will be considered and an attempt made to assess them.

The national forecasts aggregated

To begin with, the mutual consistency of the national forecasts may be examined. Added together, the projections for industrial western countries show the following weighted growth rates, in volume:

	1969	1970	Ratio to GNP growth	
	Per cent		1969	1970
GNP	6.0	4.7		
Imports ^{a} . . .	13.1	9.5	2.15	2.0
Exports ^{a}. . . .	12.5	7.9	2.0	1.7

Source: table 1.

a Goods and services.

These forecasts imply a slightly smaller elasticity of import growth to output growth in 1970 than in 1969—maintaining, in most countries, considerably greater import elasticities than the long-term average (see footnote 43, page 119). The ratio of export growth to GNP growth is forecast to decline rather more; the implications of this decline will be considered later. Further implications may first be drawn from the import forecasts, distinguishing intra-trade within western Europe from trade with the rest of the world.[79] A comparison made in chart 2 shows a remarkable similarity between developments in the cycle 1959-1961 and those in the present cycle (adding the national forecasts for 1970). In both upswings—very similar in respect of growth of GNP—intra-European trade grew at about the same rates. But whereas in the 1959-1960 upswing, western Europe's imports from the rest of the world reacted immediately and strongly to the acceleration of output, in the present upswing the increase in imports from the rest of the world was distinctly weaker.

Western Europe's export volume to the rest of the world grew faster, in both cycles, in the first year of upswing (1959 and 1968) but slowed down in the second year (the peak in export growth in 1968 was more accentuated, reflecting the exceptional increase in exports to the United States in that year).

The general shape of the aggregated national forecasts for 1970 coincides in many respects with actual developments in 1961—the year of slowing down in output and trade. To break down the forecasts of total trade between intra-trade and trade with the rest of the world, an arbitrary assumption had to be made. In the peak year, 1960, the elasticity of intra-trade to GNP growth was 2.5 and was not very different (2.7) in the following year of slowdown. In 1969, this elasticity was as high as 3.1 and may have been influenced by special factors unlikely to persist; it is assumed to fall to 2.8 in 1970, implying a 12 per cent growth in the volume of intra-trade.[80] This in turn implies an increase in volume of western Europe's imports from the rest of the world in 1970 of 5-6 per cent compared with 9 per cent in 1968 and again in 1969.[81] In 1961, by contrast, western Europe's imports from the rest of the world hardly increased at all (a major reason was the decline in the value of United Kingdom imports in that year). One reason for expecting, this time, a less harsh impact on the rest of the world is the fact that the United Kingdom, the biggest west European importer from outside, did not share in the 1969 expansion of imports and is likely, with rather faster growth, to increase its purchases in 1970.

On the same assumption about the growth of intra-trade in 1970, the national forecasts of total exports would yield effectively no increase in western Europe's exports to the rest of the world (against a rise of 7 per cent in 1969).[82] This is what happened in 1961 when western Europe's exports both to North America and the developing countries were flat. It is at this point, perhaps, that the cautious approach of the forecasters is most clearly apparent. Since exports to the rest of the world are equivalent to about 7-8 per cent of the combined GNP of industrial western Europe, the cessation of growth of these exports could result in nearly half a point decline in the growth rate of the combined GNP (allowing for the import content of the exports).

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[77] For the trend rates in 1953-1967 see part I of this SURVEY, especially chapter 3, table 3.6. For Ireland the 1970 forecast is 2 points above the 1953-1967 trend, but there was a significant lift in the trend in the 1960s. For western Germany the underlying trend in the 1960s appears to have been slower than that in the 1950s.

[78] See the SURVEY for 1968, chapter I, table 1. However for a number of countries as well as France some acceleration was foreseen, although the growth forecasts were mostly surpassed.

[79] The following discussion relates to trade in merchandise only, in volume terms, adjusting the forecasts by using ratios between merchandise and total goods and services found in the past.

[80] Granted the forecast output growth (4.3 per cent) in 1970, the differences between elasticities of 2.5 and 3.1 would mean differences in implied growth rates of intra-trade of 11 per cent and 13 per cent only.

[81] With elasticities in intra-trade of 2.5 and 3.1, the increases in imports from the rest of the world would be 7 per cent and 4 per cent respectively.

[82] With elasticities of intra-trade of 2.4 and 3.1, the increases in exports to the rest to the world would be 1 per cent and –1 per cent respectively.

Thus the general picture conveyed by the sum of national forecasts hangs together and in broad terms appears consistent with the most relevant past experience.

Assessment of the forecasts

Yet reasons may be tentatively suggested for modifying in some degree the outlook emerging from the national forecasts. Looking at industrial western Europe as a whole, we may pick out some of the " exogenous " factors determining output growth of the region.

(*a*) We may begin with *exports to the rest of the world*. The sum of national forecasts, as just suggested, appears to imply effectively no increase on the 1969 level, in volume. One reason may well be the influence of a check to growth in the United States. There is no longer much doubt that output and demand growth in the United States has been checked; indeed most (although not all) current opinion now tends to foresee a rather more severe check than was put forward at the beginning of this year by the Council of Economic Advisers as a policy objective for 1970, having in mind the aim of an improved balance in the economy.[83] The Council made it clear that policy should be reconsidered if the economy seems to be on a " markedly different path "[84] (although it is difficult to believe that any change in policy could much affect the outcome until well beyond mid-year). However, the effect on western Europe's exports need not be exaggerated; even in 1967, the year of a " mini-recession ", when real GNP in the United States grew by only 2½ per cent, the value of imports from western Europe increased by 5 per cent; it should also be noted that United States' imports from western Europe already showed no increase in 1969 (after the exceptional 25 per cent rise in 1968) without much impact on growth in western Europe. Exports to developing countries should also grow in 1970, as a result of the increase in 1969 of their capacity to import, caused partly by a substantial export volume growth (some 9 per cent between the three first quarters 1968 and the three first quarters 1969) and partly by a significant increase in their average export unit values (3 per cent between the third quarter 1968 and the third quarter 1969). The developing countries in 1969, as in 1968, added about $1 billion to their reserves, to which should be added their modest share of the special drawing rights distributed early in 1970.[85] Moreover, the national forecasts appear to imply something like a 5 per cent further increase in western Europe's imports from the rest of the world in 1970. Taking account also of the expectation of an increase in exports to eastern Europe, it seems reasonable to foresee some expansion of the volume of western Europe's total exports to the rest of the world rather than the unchanged level which seems to be implied by the sum of national forecasts.

If the correct implications have been drawn from the national trade forecasts, then it may be suggested that a moderately more optimistic view of exports to the rest of the world (say an increase of 5 per cent in volume instead of no increase) could perhaps add up to half a percentage point to the forecast increase in the combined growth of real GNP of industrial western Europe.

(*b*) The upsurge of *fixed investment*, in machinery and equipment rather than in construction in several countries, and in private rather than public investment, was one of the most striking features of 1969. As already suggested, it still has a great deal of strength behind it and, in accordance with previous experience, investment is likely to continue to increase quite fast even if GNP growth slows down. The national forecasts, based largely on surveys of investment plans or intentions in private business, together with plans for public investment, do not for the most part suggest that any slowing down in the pace of investment increases is expected. The important exceptions, however, are France[86] and, even more strikingly, western Germany where the growth of investment is forecast to decelerate substantially; in both countries, the forecasts appear well justified. Added together, growth of fixed investment contributed rather under 2 per cent to the growth of the combined GNPs of the industrial countries in 1969 (nearly one-third of the total growth). The national forecasts would reduce the contribution of fixed investment to growth to about 1½ per cent in 1970. On balance, therefore, the expected slowing down of investment growth is responsible for about half a percentage point in the forecast decline of over-all GNP growth in the industrial countries.[87]

(*c*) Thus the forecasts of exports to the rest of the world, and of fixed investment, each contribute something like half a percentage point to the fall in the growth rate of the combined GNP from 6.1 per cent in 1969 to 4.3 per cent in 1970. For the rest of the fall, a decline in the volume of *private consumption* is mainly responsible (the changes in *public consumption* cannot in total contribute much but there may well be a decline in *stock-building*). To some extent, the movement of private consumption may be regarded, in the short term, as independent, within a narrow range, of other changes in the economy; the rather general acceleration of pay increases in 1969 (see page 100 ff.), although it will be in large measure eroded by price rises, is bound to maintain for a time the increasing strength of consumer demand in real terms. But the rise in consumer demand must also be regarded as dependent upon the strength of the more strictly exogenous impulses—which for industrial western Europe as a whole are exports to the rest of the world and investment. If one or both of these impulses should prove stronger than the sum of national forecasts suggests, they would have a multiplier effect on the rise in real consumption.[88]

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[83] *Economic Report of the President*, together with the Annual Report of the Council of Economic Advisers, February 1970. The CEA suggests for 1970 as a whole an increase in GNP at current prices of 5½ per cent over 1969, with a price rise of " substantially " less than 5 per cent (page 58). This might indicate an increase in real terms of between say 1 and 2 per cent on the year, with a level in the first half of 1970 about equal to that in the second half 1969 followed be renewed growth in the second half of 1970.

[84] *Op. cit.* page 62.

[85] In September 1969, total reserves of developing countries stood at $14.7 billion (table 17). At the end of 1960, just before the slow-down in western Europe, they stood at only $9.5 billion.

[86] The apparent slowdown in France, on a year-to-year basis, is probably somewhat exaggerated because of the interruption to growth in 1968.

[87] In effect, a big decline in growth of investment in western Germany and France is not fully offset by expected accelerations in Italy, the Netherlands and the United Kingdom.

To sum up, it is suggested that the slowing-down of output growth embodied in the national forecasts, although far from unrealistic, may possibly be regarded as putting excessive weight on the contractionary forces affecting industrial western Europe as a whole. It must be accepted that some slowing down is the most probable outcome for 1970. But reasons have been given for thinking that the over-all growth rate of real GNP in 1970 could be at least 5 per cent rather than the 4½ per cent resulting from adding up the national forecasts.

The question must, however, be asked how far short-term economic policies should be regarded as an independent influence on the growth rates in 1970. It was suggested above (page 111) that present budgetary policies for 1970 are, for most countries, not strikingly more restrictive in their probable effects on the growth of domestic demand than the policies in force last year, even if monetary and credit policies have tended to become increasingly stringent. Where a slowing down in growth is foreseen, it seems that the authorities expect it to come from a spontaneous weakening of demand—domestic or external—rather than from any deliberate change in the tone of policy. It is true, however, that in western Germany, fiscal policy for 1970 (if less severe than last year) is calculated to slow down the growth rate, but by reinforcing rather than reversing what is believed to be the existing trend in investment, and relying on a substantial slow-down in exports. It has been suggested above that the official forecasts may underestimate both the strength of demand and the rise in prices. It appears that the increase in the discount rate in early March indicates a more restrictive turn of policy.

A certain slowing-down of output growth in 1970 would not be without its advantages. It would reduce the risks of provoking increasing pressures on supplies, costs and prices; such pressures might otherwise compel governments to adopt more drastic policies of restraint later in the year which could lead to an undesired and more serious interruption of economic growth in 1971. This is not to say that such a slowing down in growth rates could be expected to result, *in 1970 itself*, in the substantial check to rises in costs and prices which is a major policy objective in several countries. As pointed out earlier, pay, costs and prices respond only slowly to changes in the economic conjuncture. Historical experience suggests that pay increases will continue for a time at much the sames rates as last year (page 100); because of the lagged response of employment to output changes, productivity gains are likely to be reduced (pp. 92 and 97); so unit labour costs, and final prices, must be expected to continue increasing (pp. 104-107). Policy cannot, therefore, be assessed by reference to an apparent absence of immediate effects.

Balance-of-payments prospects

Finally, many of the national forecasts include some estimates of the expected out-turn of the balance of payments on current account in 1970. The forecasts for the four major economies, in current prices, can be given only within a broad range, but the expectations appear to be about as follows:

Current account balances
($ billion)

	1969 a	1970
France (including franc area) . .	−1.8	0[b]
Western Germany	1.8	¾ to 1¼[c]
Italy	2.5	1½[d]
United Kingdom	0.9	1¼ to 2[d]
	3.4	3½ to 4¾

a See table 14; all estimates for 1969 are still very provisional.

b Derived from official forecast for goods and services; net transfers assumed about constant.

c Lower limit derived from official forecast for goods and services; net transfers assumed constant. See also note on western Germany pp. 131-133.

d See notes pp. 133-135. The estimate for Italy is a very hypothetical one.

The smaller industrial countries were together about in balance in 1969; the national forecasts appear to imply a hardly significant net deficit in 1970.[89] Thus, for industrial western Europe in total, the current surplus with the rest of the world might swing from about $3.4 billion in 1969 to a figure between $3½ billion and over $4½ billion in 1970. Because of their mutual interdependence, it is hardly possible that all four large economies will achieve simultaneously either the minimum or the maximum of the respective ranges suggested. A more likely outcome is perhaps a current surplus for the four large economies in the neighbourhood of $4 billion—an increased surplus of say half a billion dollars. To this may be added the looked-for improvement in the current surplus of the United States.[90] The counterpart is an increase in the current deficit of the rest of the world—mainly the developing countries[91]—of the order of magnitude of $1 billion. This may not be unmanageable for a time in view of their better reserve position, and if there were larger capital outflows from the developed countries.

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[88] Capacity would hardly impose a constraint on the output response from western Europe as a whole, although possibly limiting expansion in some countries.

[89] Balance-of-payments forecasts are not given by every country. Improvements are foreseen in Denmark, the Netherlands and Sweden, but some worsening in Finland, Norway and possibly Switzerland.

[90] Net exports of goods and services are expected by the Council of Economic Advisers to rise from about $2.1 billion in 1969 to about $3 billion in 1970 (*Economic Report of the President*, page 62).

[91] The Japanese current surplus (about $2 billion in 1969) is expected to be approximately maintained.

But from the point of view of the rest of the world, the sum of the maximum forecasts for the developed countries—an increase in their aggregate surpluses of, say, over $2 billion—is not very likely to be achieved.[92]

It is not practicable to adjust these national balance-of-payments forecasts to the possibility, suggested above, of a bigger increase in western Europe's exports to the rest of the world. There would not necessarily be much of an increase in the forecast surpluses—bearing in mind the wide range—since import volumes might increase more and since the effect on terms of trade could be adverse to the industrial countries.

The forecasts indicate a move towards a sustainable pattern of current balances in western Europe, to which the exchange rate adjustments have made an important contribution. Moreover the forecasts rest upon a pattern of expected growth rates of demand and output which are not excessively remote from (although in some important countries somewhat less than) the medium-term growth objectives. If the pattern of these general trends in growth and current balances can now in fact be realized—and, better still, if rather faster growth rates can be equilibrated with a sustainable pattern of balances—the way seems open to a much smoother pattern of economic development in, and after, 1970. A more effective harmonizing of the aims and techniques of policies for economic management could do much to ensure this more harmonious development within the group of increasingly linked economies of western Europe. Equally important, it could create far better opportunities for consolidating and strengthening western Europe's links with its economic partners in the rest of the world.

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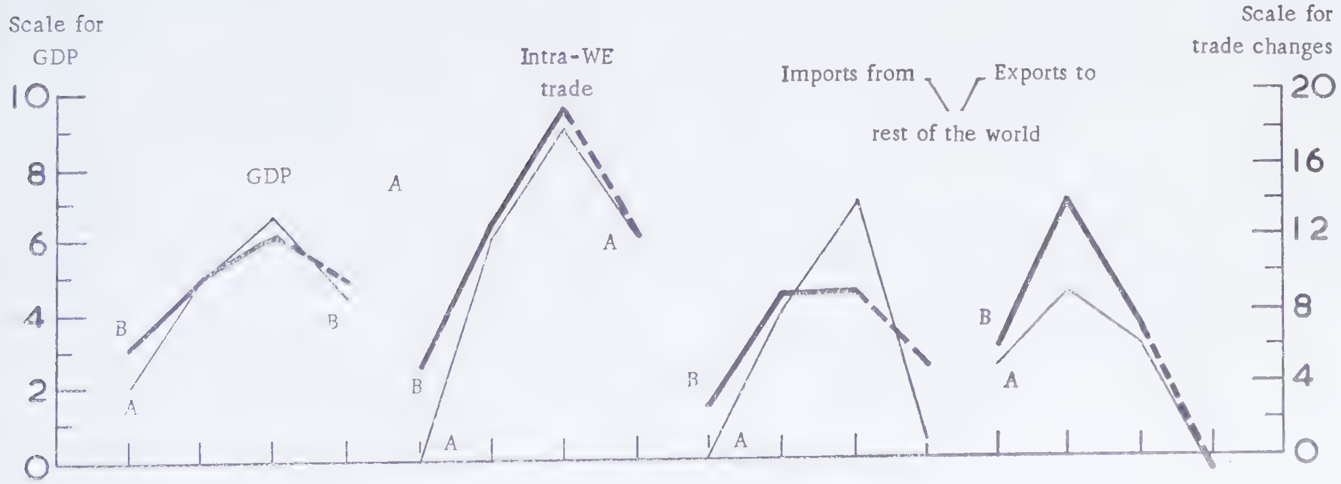
[92] The forecast increased surplus of the west European countries, in terms of current prices, may appear inconsistent with the greater increase in total imports than in exports of goods and services, in volume, reported above. The assumptions about price developments in the forecasts are not always made clear. But some improvement in the terms of trade is explicit in the forecasts for Sweden and the United Kingdom and appears to be implicit in that for western Germany.

CHART 2

Annual volume changes in west European GDP, intra-trade and trade with the rest of the world

(Per cent change from previous year)

A = 1958 to 1961
B = 1967 to 1970



NOTE. — See text for sources.

6. TRENDS AND PROSPECTS IN SOUTHERN EUROPE

After a considerable slowdown in 1968, the expansion of economic activity in the south European countries has in general gained momentum throughout 1969. As suggested in the SURVEY for 1968, the readjustment period of 1967-1968 in Greece, Spain and Yugoslavia has been followed by a new phase of expansion in which the growth of real output accelerated to a rate of about 8 per cent in Greece and Spain and of 9 per cent in Yugoslavia. In Cyprus there was also a marked acceleration in the rate of growth of output. Turkey maintained a level of economic activity almost in line with the planned 7 per cent rate of growth of real output in spite of a virtual stagnation of agricultural production. In Portugal, the mild acceleration of expansion in the non-agricultural sectors was insufficient to offset a fall in agricultural output; hence total economic growth slowed down. Increasing exports, especially of industrial products as a result of the upswing in west European demand, gave continuing support to the expansion of industrial production. Turkey, however, with its very different export structure and the smaller share of its output dependent on exports, had less opportunity of benefiting from the expansion.

Except for Portugal and Yugoslavia, prospects for a further expansion in 1970 of about the same order as in 1969 seem likely; but if the inflationary pressures already apparent in some of these countries in 1969 become more intense this year, they could render unavoidable the reinforcement or introduction of policies aimed at curbing demand.

(i) Output and demand [93]

The preliminary estimates of GNP in *Greece* in 1969 put it over 8 per cent above 1968. The acceleration in the growth of the economy in 1969—which was initiated in 1968 through the credit measures aiming at the revival of construction activity—was favourably influenced by the recovery of agricultural output after the setback of 1968, but other main sectors of the economy also experienced in 1969 a faster rate of real growth than in the previous year. The most dynamic demand forces were investment, particularly private investment, and exports; domestic consumption seems to have expanded at a rate slightly below that for the growth of total output. The private sector expanded more rapidly than the public sector both for investment as well as for consumption, but a somewhat greater than desirable share of the private investment effort continues to be directed (still under the influence of the 1967 policy measures) to residential construction to the detriment of a greater share of productive investment. Nonetheless, the data for imports of capital goods, the great increase in industrial credits, and the estimates derived from the sample survey of the Federation of Greek Industries point to a considerable acceleration in industrial investment during 1969.

The over-all expansion of demand was achieved with only a very moderate increase in the price level which may have risen by 2-3 per cent after remaining completely stable in 1968. The favourable harvests have been an important factor in the general price stability but the considerable increase in the current deficit has also acted as a safety valve preventing higher price rises.

The considerable increase in agricultural production in 1969 (of nearly 7 per cent) originated mainly in the cereal sector and it coincided with the upward turn in the production cycle of the olive crop while the tobacco crop was reduced.

The acceleration of production in the industrial sector, which gradually spread in 1968 from the branches associated with construction to other industries, gained momentum throughout 1969. In general, the manufacturing branches producing investment goods expanded at a considerably faster rate than those producing consumers' goods; particularly fast rates of growth were recorded in 1969 in the basic metals, electric machinery and non-metallic mineral branches, but certain consumer-goods branches such as textiles, footwear and made-up textile goods have also experienced a relatively fast rise. Under the impact of the acceleration of economic activity in agriculture and industry, growth in the service sector accelerated considerably. As table 18 shows, growth of services is estimated at 6.7 per cent.

No detailed estimates have yet been released on the growth of output and demand in *Portugal* in 1969, but a global estimate of GDP growth (of 5.2 per cent over 1968) was given in the budget speech of the Minister of Finance at the end of November 1969. The figures included in table 18 for 1969 are therefore very tentative estimates based on partial data and represent only rough orders of magnitude of the evolution of the main sectors of the Portuguese economy.

On the demand side, it seems likely that the most dynamic elements in 1969 were public investment and private and public consumption, while private investment

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[93] Parts (i) (ii) and (iii) of this section cover Greece, Portugal, Spain and Turkey. Yugoslavia is covered separately by part (iv).

TABLE 18

Changes in output by sectors, and in prices, in selected south European countries

(Annual percentage changes)

	1966	*1967*	*1968*	*1969*	*1966*	*1967*	*1968*	*1969*
	Greece				**Portugal**			
Change in output (at constant prices)								
Total GDP	9.8	4.5	4.9	8.3	3.3	6.0	5.9	5 *
Agriculture	0.1	4.6	−5.5	6.8	−9.7	10.6	2.0	−6 *
Industry	12.2	3.9	11.0	12.0	6.9	7.7	8.5	9 *
Construction	6.6				25.0	−24.4	−8.2	10 *
Services	13.8	4.8	5.8	6.7	3.5	7.4	6.8	6 *
Distribution of GDP in 1966 and contribution to increase in GDP in 1967, 1968 and 1969								
Agriculture	23.7	21.6	−23.8	15.6	19.8	31.2	6.3	..
Industry	19.5	25.3	64.5	44.0	36.8	48.6	55.9	..
Construction	7.3				5.9	−26.5	−6.5	..
Services	49.4	53.1	59.3	40.4	37.5	46.7	44.2	..
Price changes								
GDP deflator	0.3	2.0	0.2	..	5.9	4.8	2.8	..
Wholesale prices	3.2	0.6	0.0	3.9[a]	4.0	3.8	3.7	5.0[b]
Consumer prices	5.0	1.7	0.3	2.5	5.1	5.5	6.1	8.8
of which: Food	5.8	0.7	0.0	3.3	7.3	1.7	4.2	7.4[a]
	Spain				**Turkey**			
Change in output (percentage changes over previous year)								
Total GDP	7.9	4.5	4.8	7.8	10.0	6.3	6.7	6.6
Agriculture	7.6	1.7	6.0	1.6	11.4	0.9	1.9	1.0
Industry	9.7	4.3	4.2	11.1	10.6	12.3	10.0	11.5
Construction	6.9	5.1	5.8	9.8	12.8	7.0	10.3	9.1
Services	6.7	5.6	4.7	7.5	8.4	8.3	8.6	8.2
Distribution of GDP[c] *in 1966 and contribution to increase in GDP*[b] *in 1967, 1968 and 1969*								
Agriculture	17.6	6.7	21.0	3.0	37.4	5.7	10.2	5.3
Industry	30.3	32.0	28.9	47.0	18.4	36.6	29.6	35.6
Construction	5.2	6.3	6.6	7.0	6.1	6.9	9.6	8.9
Services	46.9	55.0	43.4	43.0	38.0	50.9	50.6	50.2
Price changes (percentage changes over previous year)								
GDP deflator	6.2	5.6	3.5	..	5.7	3.9	2.9	5.3
Wholesale prices	2.6	0.5	2.3	2.3	5.5	7.0	4.9	6.3[d]
Consumer prices	..	6.4	4.9	2.2	5.5	6.1	4.1	5.5[d]
of which: Food	..	3.8	4.5	2.0	4.5	7.8	4.8	4.4[d]

Sources: Greece: *O Oikonomikos Tachydromos*, 19 January 1970; *Monthly Statistical Bulletin*; OECD *Economic Surveys—Greece;* UN *Yearbook of National Accounts Statistics.* Portugal: Communication to OECD from Instituto Nacional de Estatistica; Bank of Portugal, *1968 Report*; *Boletim mensal de estatística*; ECE *Indicators.* Spain: *Contabilidad nacional de España; Boletin mensal de estadística;* ECE *Indicators.* Turkey: OECD *Economic Surveys—Turkey*; *Resmi Gazete*, 10 December 1969; Central Bank of Turkey, *Monthly Bulletin.*

[a] August-October over August-October.

[b] September-November over September-November.

[c] Net domestic product for Turkey.

[d] July-September over July-September.

—particularly private industrial investment—levelled off after a certain recovery in late 1968 and early 1969. The moderate increase in total demand has had a favourable influence on the current balance, mainly due to the apparent stagnation of imports and the considerable improvement of invisible earnings. Supply maladjustments and the poor agricultural year caused, however, a considerable acceleration of the increase in domestic prices, the over-all price level rising probably at a rate of over 5 per cent.

Agricultural production was affected by bad weather (excessive rain). Crop production, particularly cereal production, suffered while animal production was satisfactory. The main declines from the relatively favourable results for 1968 were in wheat (—49 per cent) and barley (—40 per cent) and leguminous production, but fruit and wine production was also low and the expected increase in the production of olive oil (of 14 per cent) is considered low in view of the favourable phase of the production cycle. Neither fishing nor forestry, which are relatively important sectors within the Portuguese economy, appear to have experienced significant changes in 1969.

Industrial output seems to have evolved rather favourably in the first eight months of 1969; the last industrial inquiry carried out by the Portuguese Chamber of Industry in September 1969 indicates that entrepreneurial expectations were optimistic for the rest of the year and that the degree of capacity utilization had increased significantly between March and September 1969.

Mining apparently experienced a new decline in production, while the expansion of public utilities appears to have been somewhat faster than that of manufacturing. Within manufacturing the branches which experienced a fast increase were those of building materials and basic industries; consumer branches increased more slowly and food processing was affected by the poor agricultural production. Construction activity seems to have recovered substantially during the first three quarters of the year but in all probability the gross value added by the sector will still remain much below the peak of 1966. Most service branches appear to have expanded at rates similar to those in 1968; a noticeable acceleration occurred, however, in social services (health and education) and in transport and catering, influenced by the recovery of tourism.

According to a recent statement by the Minister of Trade (February 1970), real GDP at factor cost increased in *Spain* in 1969 by 7.8 per cent. The rise in output was mostly due to a very rapid recovery in industry and to a considerable acceleration in the expansion of services while agriculture seems to have stagnated. On the demand side, a deceleration in the export of goods and services coincided with a speeding up of all main sectors of domestic demand except for current public expenditure. Investment in particular accelerated; it is estimated to have increased in real terms by 14.5 per cent. But private consumers' expenditure is estimated to have expanded by 8 per cent (more than double the 1968 rate). The increase in domestic demand has not been reflected in the over-all price level (which is expected to have increased by some 2 per cent) but the deficit on current account has almost doubled to nearly $500 million and the trade deficit *(f.o.b.-c.i.f.)* exceeded $2.3 billion in 1969, approaching the peak deficit of 1966.

The considerable increase of agricultural production in 1968 was followed by almost no increase in 1969. The wheat crop declined by some 12 per cent and other cereals also declined, although more moderately. The barley area, and crop, increased following the policy of favouring feedcrops and at the same time reducing wheat surpluses. Production of leguminous crops, in general, declined as did fruit production, except citrus fruit. Animal production increased moderately, compensating the fall in cereals.

In sharp contrast stands the increase in industrial production by over 11 per cent (the same figure for manufacturing). This was obtained mainly by the rise in labour productivity (9.4 per cent) associated with greater capacity utilization.[94] Mining output, however, declined slightly. In manufacturing, the greatest relative increases were achieved by " transport material ", " wood, cork and furniture " and chemicals, but in practically every branch the results were above those for 1968; the exception was, naturally, food processing, influenced by the stagnant agricultural output. Productive investment in the industrial sector (industry, construction and public utilities) expanded in current prices by nearly 14 per cent, indicating that investment in real terms grew at about the same pace as real output. (The corresponding figures for 1967 and 1968 were —0.8 and 7.7 per cent respectively.)

Available indicators show that the service sector accelerated its growth in 1969; transport, trade and catering services obviously benefited from the increase in internal demand and from the record tourist inflow (21.7 million), and the increase in current public expenditure on social services accelerated considerably.

According to preliminary estimates for 1969, GDP at factor cost increased in *Turkey* in real terms by some 6.6 per cent. The sectoral growth of output, by and large, followed the pace and pattern of 1968 with slight decelerations in the rates of growth of services, agriculture and construction and a minor acceleration in industrial production. On the demand side the main dynamic forces were private investment (which increased by nearly 14 per cent at constant prices), exports of goods, and public consumption, while private consumption and public investment increased less than GNP (at market prices). The current deficit is expected to be slightly less than in 1968 on account of the improvement in the trade balance and a considerable increase in net invisibles. Excess demand has become manifest in an accelerated increase in the domestic price level—mainly accounted for by food prices—rather than in an increase in imports, still subject to strict controls and import licensing.

For the third consecutive year agricultural production failed to keep pace with the net increase in population in spite of the policy efforts aimed at stimulating greater use of fertilizers and selected seeds. However, considering the adverse weather conditions in 1969, agricultural production achieved a moderate rise, mainly by an increase in the wheat crop, and cannot be considered as completely disappointing. Mining, particularly crude oil and iron ore production, rose fast in 1969, while within manufacturing building materials (cement) and, in general, investment goods, rose more than consumers' goods (textiles). Construction activity is expected to expand quite fast but somewhat less than in 1968, mainly because of a smaller increase in residential building. The service sector is expected to grow at almost the same rate in real terms as in 1968, the very slight deceleration seemingly originating in government services.

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[94] According to press reports (11 February 1970), " industrial " employment (including construction and public utilities) increased by only 0.7 per cent and man-hours worked by 1.4 per cent. As labour costs per hour at current prices have increased by 8.7 per cent, this implies lower labour costs per unit of output and an increase in industrial profits.

(ii) Trade and payments

Data for 1969 indicate for *Greece* an increase of the current account deficit of some $95 million. This reflected mainly a widening of the trade deficit since imports (which are roughly three times greater than exports) expanded by about the same rate as exports. The invisible balance improved considerably, due to a sizable growth of tourist receipts (following the decline of 1968) and emigrants' remittances, while shipping receipts stagnated. The increase in the surplus of invisibles was sufficient to finance less than a fifth of the increase in the trade deficit. The net capital inflow, both private and public, increased considerably but not sufficiently to prevent a moderate decline in foreign currency reserves. Commodity exports (on a payments basis) increased only moderately, because of a very sharp decline in tobacco exports (by 20 per cent) and no great change in food and beverages; but exports of minerals and ores increased substantially (15 per cent) and of manufactured goods by as much as 60 per cent, mainly due to the increases in the exports of nickel ingots, leather goods and textiles. With this new expansion, Greek exports of manufactures have more than trebled in value between 1966 and 1969. The biggest relative increases in imports in 1969 were in capital goods (20 per cent), raw materials (22 per cent), and food (17 per cent), while imports of manufactured consumers' goods expanded less than the average.

The geographical pattern of Greek trade experienced little change in 1969; the EEC and the United Kingdom increased slightly their market shares in Greece while imports from Japan almost quadrupled; Greek imports from the United States declined. Greek exports to the United States, on the other hand, developed faster than the average, as did exports to Sweden and Spain, while Greek exports to the EEC rose relatively slowly.

Balance-of-payments data for *Portugal* cover only the first half of 1969; the general tendencies in that period changed substantially in the second half year, when exports slowed down and imports considerably increased in contrast with the stagnation of imports in the first half of 1969 over the same period of 1968. The current balance of continental Portugal might have improved marginally in 1969 as a whole as a result of considerable gain in net invisibles; emigrants' remittances increased, although the net tourist inflow did not rise as rapidly (in either Iberian country) as the number of tourists (average expenditure seems to have declined as a result of the tourist restrictions imposed by the United Kingdom and France). The over-all balance of Metropolitan Portugal might, however, have worsened in 1969, since the improvement in the current account was probably more than offset in great part by a deterioration in the capital balance, due to an increased outflow of short-term capital and a dramatic decline in the net long-term capital inflow.

Of the increase in total commodity exports of Portugal in 1969 (12 per cent) nearly a quarter was due to the rise in diamond shipments (which doubled); significant increases also occurred in exports of wood-pulp (39 per cent), electrical machinery and appliances (40 per cent) and textiles (11 per cent). Portuguese imports of chemicals, metals and transport equipment increased much more than the average for all imports (19 per cent). The geographical distribution of imports into Portugal changed little in 1969; the main feature was the small decline in the share of imports from overseas provinces and the increasing share of west European countries (especially the United Kingdom and western Germany) and of Japan. The increase in Portuguese exports was particularly marked to EFTA countries other than the United Kingdom, and to western Germany, while Portuguese exports to the United States declined slightly.

Available data on the foreign payments of *Spain* refer to the first nine months of 1969 (payments basis); but because of leads and lags and different evaluation practices it is difficult to infer transactions data from payments data.[95] But it can be assumed that the trade balance (on a transaction basis) deteriorated by nearly $350 million while the increase in net invisible earnings might be estimated at some $130 million; the current account deficit may thus have increased from $260 million in 1968 to about $500 million in 1969. The deterioration in the current account derives from the worsening of the trade balance because of the rapid increase in imports (over 20 per cent) following the virtual stagnation of 1968. Exports continued to expand rapidly, but slightly below the rate of increase in imports; as exports are roughly half the value of imports the trade balance deteriorated sharply. The invisible surplus increased, due to a relatively moderate rise in net tourist receipts (of less than one-tenth) and to a considerable increase in emigrants' remittances. The net inflow of long-term capital declined with reduced foreign borrowing by public authorities and a drop in direct private investment. The short-term capital outflow seems to have continued at a high level. The reshaping of interest rate patterns in July-August 1969, and the measures to increase competition among banks, have so far yielded very modest results and the interest-rate differential in favour of deposits abroad continues to stimulate a short-term capital outflow.

The most important increases in imports occurred in metallic products (51 per cent)—mainly iron and steel (79 per cent)—chemicals (25 per cent) and machinery (20 per cent). Imports of agricultural products continued to increase but the figure for 1969 (14 per cent) is influenced by the inclusion in the Spanish foreign trade statistics of trade with previously dependent territories (Spanish Guinea). Exports of non-agricultural products increased by 26 per cent, well above the average but less than in 1968 (33 per cent); particularly large increases occurred in exports of chemicals, furniture, textiles, shoes, and machinery and transport equipment (particularly railway rolling stock). The geographical distribution of Spanish trade experienced only minor changes; imports from EEC countries increased slightly more than the average but the share of western Europe in Spanish imports declined due to the loss in the share of EFTA countries. Imports from the United States increased more than average, while imports from Japan more than doubled. Spanish exports to the EEC and Latin America increased particularly rapidly, while exports to EFTA, the United States and eastern Europe grew relatively slowly.

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[95] The differences in the *trade balance* data for the years 1966 to 1969 for both sets of data have ranged from $104 to $154 million.

Turkey's balance of payments seems to have undergone only small changes in 1969. The current deficit declined by about $20 million, due to a reduction of the trade balance deficit following a recovery of exports (after a decline in 1968) and a slow-down in the growth of imports. The current invisible surplus increased on account of a sizable rise in emigrants' remittances while the tourist balance continued to be negative. The long-term capital inflow changed little, but the tendency seems to be towards a slight reduction in the net inflow.

Trade returns (for January-October) show that the most important increases in imports took place in metals, fertilizers and chemicals, while imports of machinery and transport equipment declined. The recovery of exports was due to an increase in the shipments of fruits (mainly raisins) and tobacco, while cotton exports declined. The increase in Turkish exports centred mainly on the EEC area, while exports to other west European countries in general declined. On the import side, the main change was the higher share of North America, due mostly to cereal imports.

(iii) Prospects

There are no serious reasons to suppose that the economic expansion of the south European countries will suffer a substantial slow-down during 1970.[96] In *Greece*, the outlook for a further rapid increase of industrial production is favourable; total demand should, in all probability, continue to expand rapidly and further acceleration of productive investment seems likely. A further deterioration of the current deficit might occur, but even if excess demand pressures arise the level of external reserves still affords a certain margin of manœuvre. The 1970 budget foresees an increase in the surplus in the ordinary budget which will serve to finance greater investment expenditure; the budget allows also for a further increase in the recourse to internal or external borrowing.

In *Portugal* the adverse weather conditions of late 1969 and early 1970 make it improbable that there will be a very radical improvement in the depressed agricultural sector. The " open " character of the Portuguese economy also makes it more vulnerable to a slow-down in international trade (should it materialize in 1970). Nevertheless, the considerable increase in the current and capital expenditure of the public sector, as it appears in the budget for 1970, might provide enough stimuli to the private sector for the over-all growth of demand to accelerate in 1970. Most recent information on trends in demand, however, does not suggest so rapid an expansion this year as the 7 per cent planned increase in real GNP, in spite of the increase in private consumption which is likely to follow increasing incomes in most sectors.

There are no reasons to suppose that the measures introduced at the end of 1969 in *Spain* to slow down consumption and imports [97] will affect seriously the rate of economic activity in 1970. Consumer incomes will be favourably influenced in 1970 by the improvement in 1969 of the terms of trade of farmers, and also by the great number of new collective contracts which will be signed early this year—these will probably lead to substantial basic wage increases [98] and, given the prevailing demand pressures, to still greater total wage-earnings. In these circumstances, inflationary pressures would become more intense and might lead to a reinforcement of the mild monetary and credit measures of restraint already taken. The current balance could improve in 1970 under the influence of import deposits, but unless substantial progress in the external sector is achieved in 1970 (by exports and tourism) the problems might prove to be postponed rather than solved. The slow progress in the adaptation of industrial and agricultural structures of production in Spain calls for a certain caution in the assessment of longer-term prospects. The difficulties of stimulating investment and industrial concentration and re-adaptation, while holding back total consumer demand, seem to be the major short-term, as well as the major medium-term, problems facing Spanish policy makers.

The chronic problem of obtaining adequate external financing in *Turkey* continues to beset policy. At present (February 1970), the financing of the public sector throws a new shadow of uncertainty over the prospects of the Turkish economy, since the budget proposals incorporated in the annual programme for 1970 have been rejected by the national parliament. Assuming that the present difficulties are overcome, it might still be possible for the Turkish economy (particularly in view of improved agricultural prospects) to achieve in 1970 a rate of growth similar to that for 1969, and to the growth provided for in the Five-Year Development Plan.

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[96] One common factor may be the relaxation of tourist restrictions by France and the United Kingdom.

[97] In December 1969 a 20 per cent deposit on imports was established and hire-purchase deposits increased.

[98] The wage control measures continue to operate in a somewhat more flexible way and the previous 5.9 per cent limit of average level of wage increases has been raised to 6.5 or 8 per cent according to the length of the contract.

(iv) Yugoslavia

In 1969, growth of the Yugoslav economy regained the high rates of the years before the 1965 economic reform; GNP increased by 9 per cent as compared with 1.6 and 4.3 per cent in 1967 and 1968 respectively and 9.6 per cent in the 1956-1963 period. This acceleration was the combined result of the long-term effects of the reforms, the Government's expansionary policies and an upturn in foreign demand. But the Government's policy instruments were not strong enough to prevent pressures on costs and prices; bottlenecks of capacity appeared and the balance of payments was adversely affected.

The margin for further growth in 1970 is therefore narrower. Credit controls—now almost the only instrument of policy—may be directed to curbing the growth of demand, possibly below existing capacity, in the interests of price stability and an improvement in the balance of payments. Nevertheless, a rate of growth of 7 per cent is believed by the experts to be within reach.

All sectors shared in the acceleration of 1969: agricultural output increased by 7-8 per cent, while in 1967 and 1968 it stagnated; industrial output rose by 11 per cent which was almost twice as much as in 1968 (in 1967 industrial output remained unchanged); other sectors grew by rates similar to that in industry and faster than in 1967 or 1968. Both productivity (where the impact of the 1965-1966 reforms has been most strongly felt) and employment rose faster. Outside agriculture, productivity increased by 7.7 per cent against 6 per cent in 1968 (in industry alone by 8 per cent as compared with 1.6 and 7.6 per cent in 1967 and 1968 respectively, and 5.8 per cent achieved during the 1956-1964 period). Non-agricultural employment went up by 4 per cent (in industry alone by 2 per cent), which was four times as much as in 1968 (it had fallen in both 1966 and 1967).

A high rate of growth of employment could be resumed once the redundancy in industry had been considerably reduced—a process initiated by the 1965 economic reform. The employment multiplier of output growth was increased and at the same time the growth speeded up. However, neither this rise in domestic employment, nor the 120 thousand new jobs taken abroad by Yugoslavs (as compared with 60-70 thousand in 1968), was sufficient to balance the labour market. The number of people recorded as seeking employment increased in 1969 by nearly 30 thousand and reached a total of 359 thousand (9.5 per cent of the labour force outside agriculture). Of this total, however, half are seeking employment for the first time, and others are in jobs but seeking new ones. The number unemployed in the more restricted sense of receiving unemployment benefit is 157 thousand as compared with 197 thousand in 1968. The pressure on the labour market was due primarily to an increasing movement out of agriculture, brought about by the deterioration in farming conditions in 1968.[99]

Re-expansion has gone hand in hand with structural change in industry. Thus the acceleration of the rate of growth started in 1968 in electricity, some parts of metallurgy, non-metallic minerals and electro-engineering which increased rapidly; in 1969, oil, metal processing, rubber and chemicals also accelerated. This was in line with the reform of 1965 which aimed at a fast expansion of low-cost sectors. But some structural problems were intensified, with repercussions on industrial growth. Output in some basic industries grew slowly (relatively to the growth of manufacturing sectors), largely because they were unable to raise selling prices, while their input costs were increasing (more recently, prices of some of these products were allowed to be raised—e.g. prices of metals were allowed to increase by some 10 per cent in January 1970).

Crop output benefited from favourable weather conditions, and largely exceeded that of 1968. Livestock output was recovering from the setback which it suffered in 1967 and 1968 because of sales difficulties (in 1968 exports alone went down by 20 per cent) and price declines (7 per cent in 1967 and 1968 combined); prices went up by 9 per cent and sales (including exports) increased again. A firmer foundation for future agricultural growth has been provided by schemes recently introduced for guaranteed sales at favourable prices, for 3-5 years ahead, of livestock and some cereals and fruit crops—based on an agreed view of demand prospects. It is hoped that the recent agreement with the Common Market will also facilitate a firmer assessment of future sales possibilities. (See page 128.)

The recovery in construction was mainly due to the revival of investment. Another important factor was the spread of Yugoslav construction activity abroad which increased in the first half of 1969 by as much as 60 per cent; it is hoped that by the end of the year its value will surpass the $125 million realized in 1968.

Resurgence of inflationary pressure

The faster growth rate of 1969 derived from a substantial acceleration in personal consumption, and from a major recovery in exports (although partly balanced by a much faster rise in imports than in 1968). Fixed investment continued to grow by about 10 per cent. Such rates of expansion were bound to affect the stability of the internal balance which had been achieved, with great pains, in 1967 and 1968. Industrial and agricultural producer prices went up in 1969 by 3 and 9 per cent respectively (as compared with either stability or declines in 1968), wholesale and retail prices increased by 5 and 7 per cent (against 2 and 4 per cent in 1968), and the cost of living rose by 8 per cent (as compared with 5 per cent in 1968, but in both years partly because of continuous price adjustments in services). This pressure on

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[99] Difficulties of mobility within the country are also important, as indicated by the rise in unfilled vacancies from 38 thousand in 1968 to 50 thousand in 1969.

TABLE 19

Yugoslavia—selected indicators, 1956 to 1969

	Absolute amount 1967	*1956-1963 annual compound increase*	*1964*	*1965*	*1966*	*1967*	*1968*	*1969*
			Annual percentage changes					
Output (volume)		9.6 [a]	12.7	3.4	8.5	1.6	4.3	9.0
Industrial production		12.0	16.0	8.0	4.3	0.5	6.5	11.4
of which:								
consumer goods		13.5	16.0	9.0	6.0	−1.0	6.4	12.0
capital goods		12.0	19.0	10.0	2.0	−1.0	7.5	12.0
intermediate goods		11.2	15.0	7.0	4.0	0.0	6.4	11.0
Output per worker in industry		5.8	6.9	4.2	5.2	1.6	7.6	8.0
Construction—effective hours		6.3	10.9	−14.0	−11.0	−2.0	2.0	9-10
Agricultural output		6.0 [a]	5.9	−9.1	16.1	−0.8	−3.0	7-8
Expenditure (volume)	*billion dinars*							
Gross fixed investment	30.3	14.0 *	16.0	−9.0	−6.5	−9.0	15 *	10.0
Personal consumption	63.4	7.7	12.0	6.1	4.0	6.0	4.0	7.5
Foreign trade (value)	*$ million*							
Exports *f.o.b.*	1 253	13.9	12.4	21.1	12.8	2.7	1.0	17.0
Imports *c.i.f.*	1 708	12.2	25.2	−2.7	22.2	7.8	5.2	18.8
Exports of goods and services	1 823	..	..	..	16.0	5.7	4.1	18.0
Imports of goods and services	1 906	..	..	..	22.6	7.9	6.0	18.0
Gold and foreign exchange reserves [b]	115	..	..	..	80	115	160	300
Employment	*thousands*							
Non-agricultural employment	3 561	6.3	6.4	1.5	−3.1	−0.6	1.0	4.0
Registered unemployed [c]	199	..	136	179	178	199	197	157
Vacancies [c]	34	..	83	53	44	34	36	49
Wages	*dinars*							
Real earnings per head	..	6.7	14.4	2.3	12.4	6.4	4.0	6.5
Nominal earnings (monthly)	787	13.3	26.8	38.5	38.0	13.6	9.5	14.4
	billion dinars							
Disposable income of population [d] (current prices)	68.9	..	..	..	34.2	16.6	12.3	21.5
Savings of households (current prices)	9.7	..	40.9	16.1	66.7	30.0	28.2	33.0
Prices								
Retail price index		4.3	8.7	29.0 [e]	23.0 [e]	6.4	4.2	7.3
Producers' prices of industrial products		1.1	4.8	15.0 [e]	11.0 [e]	2.0	0.0	3.0
Producers' prices of agricultural products		7.8	23.0 [e]	44.0 [e]	17.6 [e]	−3.0	−3.8	7.0

	Amount outstanding end December 1967	*December 1966 to December 1967*	*December 1967 to December 1968*	*November 1967 to November 1968*	*November 1968 to November 1969*
Trend of liquid resources [f] (in million new dinars)					
Bank credit	43 695	2 899	5 168	5 488	6 783
Sales or purchases of foreign exchange	271	1 284	902	1 844	1 614
Others	−11 483	−1 296	1 227		
Total liquid resources	32 483	319	7 297	7 332	5 169
Money supply	23 483	−410	5 610	5 720	2 725
Currency in circulation	7 954	1 006	1 630	1 904	1 930
Giro accounts	14 146	−807	3 043	3 756	498
of which:					
enterprises alone	5 358	−2 116	1 719	1 468	−223
Float	1 383	609	937	60	297
All other sight deposits	9 000	729	1 687	1 612	2 444

Sources: National statistics.

[a] Based on 1955-1956 average.

[b] End of period. In addition, there is a certain surplus on clearing accounts.

[c] End of the year.

[d] For 1969—10 months only; all figures include net additions to hire-purchase credit outstanding.

[e] Periods when a price reform was carried out.

[f] Currency in circulation is almost exclusively in the hands of the population; also sight deposits are predominantly in the hands of the population (roughly 70 per cent).

prices was the joint effect both of rising wage costs and of sectoral demand pressures.[100]

In Yugoslav conditions, increases in labour income in excess of productivity gains—which can occur very rapidly under the system for distribution of income within the working collectives—tend to lead both to price increases and to a strain on the liquidity of enterprises. And although the considerable wage increases of 1969 were accompanied by a more than proportional increase in individual savings, and although the rise in wages is accompanied by increasing government revenue from the tax on wage bills, the mechanism of the banking system does not immediately allow the channelling of individual savings or budget surpluses back to enterprises. Hence, although the liquidity of the economy as a whole increased in 1969, the liquid assets of enterprises were reduced (as is indicated by the figures for enterprises' giro accounts in table 19). This necessarily led to a strong pressure for increased bank credit. Without the rise in bank credit, growth would have been slowed down; but with it, the shift to wages in the allocation of enterprise income was facilitated. This dilemma, resulting from the almost exclusive use of bank credit as the instrument of policy, has been a recurrent problem of recent development in Yugoslavia and has tended to create rather violent fluctuations in the growth of output, wages and prices.

However, the increase in bank credit in 1969 (14 per cent) was moderate enough, in conjunction with the strain on the liquidity of enterprises, to exercise some restraint on the growth of the wage bill, which slowed down towards the end of the year.

Both private and collective consumption contributed to demand pressure. Even though the propensity to consume declined, the value of consumers' expenditure rose faster than the volume of supplies. In the first 10 months of 1969, disposable income of the population went up by 21.5 per cent as compared with 12 per cent in 1968 (farm income rose still faster on account of a good harvest and rising prices). Since savings rose by 33 per cent, consumers' expenditure increased by 18 per cent as against 10 per cent in 1968.

The increase in the cost of living of 8 per cent brought down the increase in volume of consumers' expenditures to 9 per cent (4.6 per cent in 1968). Output of consumer goods rose by 12 per cent, or about twice as much as in 1968. Because of some supply shortages and a rapid increase in exports, imports of consumer goods increased by 15 per cent, while some domestic production went into stocks. The nominal value of collective consumption increased by some 15 per cent.

Fixed investment rose by about 9-10 per cent in volume—rather less than in 1968. In itself, this did not add to the inflationary pressure; the increase in investment over the last two years was no more than enough to recover the ground lost in 1965-1967, and domestic output of capital goods rose in 1969 by as much as 12 per cent. Moreover, the increases in individual savings, and borrowing from abroad, helped to finance investment which was thus not seriously impeded by the rise in wages or the fall in enterprise liquidity.

Industrial stocks, although falling in the first half of 1969, recovered subsequently and there was only a negligible increase over the year.

Balance of payments

It is normal that in these conditions the balance of payments should worsen. Even though—under the impact of the 1965 economic reform and the recovery afterwards—exports of commodities increased very rapidly (by 17 per cent in 1969 as compared with 1 per cent in 1968), imports increased still faster (by 19 per cent in 1969 as compared with 5 per cent in 1968). As a result, the trade deficit went up from $537 million in 1968 to $660 million in 1969.

The commodity and regional patterns of trade continued to improve. Industrial exports rose by 18 per cent (of which non-ferrous metals, textiles, chemicals and ships by 20-40 per cent), and exports to western industrial countries rose by some 28 per cent. Imports from the latter area went up by some 20 per cent which caused a certain increase in the Yugoslav deficit with the west. In addition two more points should be mentioned. First, because of the deterioration in the conditions of some basic industries already referred to, the tendency to import inputs went up; indeed, in 1969, imports of inputs rose by 26 per cent (metals by 40-100 per cent) as compared with 15 and 6 per cent increases in imports of consumer goods and capital goods respectively. Second, although various calculations indicate that industry can grow by 10-13 per cent a year without adversely affecting the balance of payments, the experience of 1969 suggested that the 11 per cent of 1969 is too much from this point of view. It seems also that structural imbalances in industry have reduced the scope for safe expansion.

A part of the trade deficit was offset by a rising surplus in services (from some $428 million in 1968 to more than $500 million in 1969) so that the deficit on current account amounted roughly to $160 million ($109 million in 1968) and accounted for 1 per cent of GNP. Moreover, Yugoslavia has continued to import capital in sufficient amounts not only to meet the current deficit and loan repayments falling due, but also to permit an increase in gold and convertible currency reserves from $160 million in December 1968 to $300 million in 1969 (and some increased in non-convertible currencies).

Prospects for 1970

The aim of economic policy in 1970 is to maintain a high rate of growth. Two constraints are imposed: the achievement of stability and an improvement of the balance of payments. Moreover, it is expected that economic activity abroad will slacken. Government experts believe that these constraints will permit a rate or growth of over-all output by 6.5-7.5 per cent and of industrial output by 9-10 per cent; in agriculture a very moderate increase is expected. The experts also expect private demand to increase less fast than output (5.5-6.5 per cent), which will permit investments to go up faster (8-9 per cent) and go some way to restore the investment ratio, which had fallen considerably before 1968. In their view, a reduction in the trade deficit should follow (they expect exports of merchandise alone to increase by 12-14 per cent, and imports by 10-12 per cent only). It is agreed that these estimates are somewhat less than production capacity would allow.

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[100] A Yugoslav study indicates that for the period 1957-1967 wage costs of output determined four-fifths of short-term variations of producer and retail prices (see B. Horvat, *Privredna Analiza*, 22 December, page 4). This proportion was probably somewhat lower in 1968 and 1969 when expansionary credit policies allowed for a larger degree of demand inflation than in the preceding period.

Recent market tests confirm the tendency towards a slackening rate of growth in 1970. Deceleration of demand had started already in October 1969; the inflow of export orders continues unabated but domestic orders have been on the decline. Moreover, stocks, which in the first half of 1969 were on the decline, resumed their growth afterwards. Similar trends are expected throughout the first half of 1970, but afterwards a slackening in all types of demand is expected.

Monetary policy is still regarded as the main instrument of economic management. To replenish the liquidity of enterprises, and to meet the needs of rising output, the amount of bank credit is planned to increase in 1970 by 14 per cent, considerably faster than the expected increase in the volume of GNP. The risk of continued demand pressure through monetary expansion thus remains. It has not yet been possible to find ways of using either incomes policies or fiscal policies to create a more complex and balanced set of stabilizing instruments. It might be expected that the Yugoslav system would offer good opportunities for effective policy guidance from the Government. But the decentralization of powers to the regions, and the problems of securing a satisfactory regional balance in the incidence of taxes and public expenditure, are obstacles to the carrying out of a short-term economic policy which have not yet been surmounted.

OTHER RECENT ECE PUBLICATIONS

Recent publications by the ECE secretariat, in addition to the annual *Economic Surveys of Europe* and the trade reviews contained in the *Economic Bulletins for Europe*, have included:

Incomes in Postwar Europe: A Study of Policies, Growth and Distribution (*Economic Survey of Europe in 1965*, Part 2)

Sales No.: 66.II.E.14 Price: $(US)6.50 Published in 1967

Macro-economic Models for Planning and Policy-making

Sales No.: 67.II.E.3 Price: $(US)2.50 Published in 1968

Policies and Means of Promoting Technical Progress

Sales No.: 69.II.E.7 Price: $(US)2.50 Published in 1969

Methods of making import/export projections (*Economic Bulletin for Europe, 1967*, Volume 19, No. 2)

Sales No.: 68.II.E.5 Price: $(US)1.50 Published in 1968

Note on institutional developments in the foreign trade of the Soviet Union and eastern European countries

A note on the New Delhi session of UNCTAD and implications for international trade of changes in technology and industrial structure (*Economic Bulletin for Europe, 1968*, Volume 20, No. 1)

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